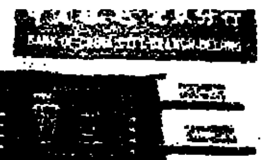
After the gearbox
Developing CVT systems for your car
Page 11

Asian appetite
US fast food finds favour
Page 10



The People's Bank
China seeks central authority
Page 16

Keys' successor
Christo Liebenberg
Page 6

FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY JULY 7 1994 — D8523A

Cost-cutting lifts Lufthansa to $61m first-half profit

A combination of cost-cutting and increased revenues helped Lufthansa make pre-tax profits of DM100m ($61.3m) in the first half of 1994, the airline said at its annual general meeting in Berlin. This is the first time the airline has made a first-half profit in five years. Chairman Jürgen Weber said was confident the airline would pay a dividend for 1994. Page 17

Aden suburbs seized: North Yemeni forces appeared close to outright victory in their two-month civil war with the South as they seized two northern suburbs of the city of Aden. Page 16

Andreotti may face fresh Mafia allegation: Former Italian prime minister Giulio Andreotti (left) could soon face more serious charges over his alleged links to the Mafia. Palermo magistrates are understood to want to bring an allegation that, by providing political protection for Cosa Nostra, the umbrella organisation of the Sicilian Mafia, the 75-year-old Christian Democrat politician was in effect part of the criminal organisation. Mr Andreotti has denied the charge. Page 2

Spurs fine increased: A £600,000 ($912,000) fine imposed on Tottenham Hotspur football club for alleged irregular payments to players was increased to £1.5m. But a Football Association appeal hearing halved the number of points to be deducted from the north London club next season from 12 to six. Tottenham's share price rose 5p to 94p. Page 9

German unemployment down: Seasonally adjusted unemployment in west Germany fell by 3,000 last month. It was the first drop since autumn 1991, and suggests a more rapid recovery than expected in the labour market. Page 2

Change of plan for Mannesmann chief: Werner Dieter, outgoing chief executive of Mannesmann, one of Germany's largest industrial companies, who steps down tomorrow will not be elected chairman of the company's supervisory board as expected. Page 2

Alitalia flights in chaos: Wildcat strikes by Alitalia cabin crew in protest at job-shedding and cost-cutting plans caused hundreds of flight cancellations at Italian airports. Further disruption is expected over the next few days. Page 2

Dublin revives World Cup party: A gala homecoming reception for the Irish Republic's World Cup football squad, called off when it appeared too few players would be returning, is to take place after all in Dublin today. Prime minister Albert Reynolds will greet some 19 of the 22-man squad together with manager Jack Charlton.

Beijing combats child labour: China published a labour law, to take effect next January, aimed at outlawing the employment of children under 16. Page 6

Weinstock stays: Britain's General Electric Company said Lord Weinstock, its long-serving managing director who will soon be 70, would stay in his job for another two years. Lex, Page 16; Details, Page 24

Kiev's finance minister goes: Ukraine's finance minister Hrihory Pyatachenko, much-criticised abroad for his slowness in introducing market reforms, was replaced by Petro Hermanchuk, who immediately called for an overhaul of the budget and tax system.

Insider scam leads to jail: Alain Boublil, former chief aide to the late Socialist prime minister Pierre Bérégovoy, was sentenced to two years in jail, one of them suspended, by an appeals court for his part in an insider trading scam involving the takeover of American Can by state-owned aluminium group Péchiney.

'Tuck shop sculpture' sets world record: A 3,000-year-old Assyrian stone relief, dismissed as worthless in the 1950s and hung since then on a school tuck shop wall next to a dartboard, sold for £7,701,500 ($11.70m) at Christie's in London, a record for any antiquity. Staff at Canford school, Wimborne, Dorset, had assumed the whitewashed panel was a plaster replica until its recent identification. Report and *picture*, Page 9

New 100m world record: Leroy Burrell broke the world 100m record with a time of 9.85 seconds at a meeting in Lausanne, Switzerland.

■ STOCK MARKET INDICES

FT-SE 100:	2,946.7	(-18.3)
Yield	4.20	
FT-SE Eurotrack 100	1,312.04	(-4.52)
FT-SE-A All-Share	1,475.19	(-0.4%)
Nikkei	20,629.03	(-205.34)
New York: lunchtime		
Dow Jones Ind Ave	3,667.7	(+15.22)
S&P Composite	445.83	(-0.54)

■ US LUNCHTIME RATES

Federal Funds:	4¾%
3-mo Treas Bills: Yld	4.408%
Long Bond	84¼
Yield	7.594%

■ LONDON MONEY

3-mo Interbank	5¼%	(5⅛%)
Liffe long gilt future:	Sep 99⅜	(Sep100⅞)

■ NORTH SEA OIL (Argus)

Brent 15-day (Aug)	$17.22	(17.5)

■ GOLD

New York Comex	$384.6	(386.9)
London	$384.5	(386.8)

■ STERLING

New York lunchtime:		
$	1.549	
London:		
$	1.5495	(1.5405)
DM	2.4303	(2.438)
FFr	8.3425	(8.3565)
SFr	2.0436	(2.0459)
Y	152.045	(152.24)
£ Index	79.4	(Same)

■ DOLLAR

New York lunchtime:		
DM	1.5698	
FFr	5.38275	
SFr	1.32185	
Y	98.335	
London:		
DM	1.5685	(1.5826)
FFr	5.384	(5.4245)
SFr	1.3189	(1.3281)
Y	98.125	(98.825)
$ Index	63.0	(63.4)

Tokyo close Y 98.3

Austria	Sch32	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK60	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
France	FFr9.50	Kuwait	Fils625	Poland	Zl 32,000	Tunisia	Din1,500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L30000
						UAE	Dh12.00

Germany blames US policy for $ weakness

Dollar falls to 14-month low against the D-Mark

By Quentin Peel in Bonn and Our Markets Staff

Mr Günter Rexrodt, the German economics minister, yesterday blamed a lack of consistency in US government policy as an important factor behind the dollar's recent weakness.

Mr Rexrodt also stressed that his government did not want to participate in concerted market intervention. His sharp criticism comes just before the Group of Seven summit in Naples, and President Bill Clinton's subsequent visit to Bonn. He also condemned US policy towards Japan, which he said had been inconsistent and not conducted "particularly cleverly".

The dollar fell to a 14-month low against the D-Mark in late European trading as markets reacted to Mr Rexrodt's comments and awaited news from a meeting of the Federal Reserve's open market committee, which ended without announcing a change in short-term interest rates.

Fed governors and regional presidents had debated whether a further increase in short-term interest rates was needed to prevent still-robust US economic growth putting upward pressure on inflation.

US policymakers have been unsettled by the dollar's fragility in recent days. But traditionally they put relatively little weight on currency fluctuations when setting monetary policy.

Markets had interpreted the Fed's adding of reserves to the banking system overnight as a signal that it would not raise interest rates immediately. The dollar closed in London at DM1.5685, down from DM1.5826, and dipped close to its post-war lows around Y97.70 but rallied to finish at Y98.125 from Y98.825.

In an interview published by the Süddeutsche Zeitung, Mr Rexrodt claimed that the Bundesbank had opposed the last concerted central bank intervention in defence of the dollar. He insisted that the problem was in Washington, and in relations between the US and Japan.

He argued that the dollar rate was influenced above all by the sharp outflow of long-term capital from the US, and in particular by the outflow of Japanese capital. The US was dependent on inflows of foreign capital, because of its low domestic savings ratio, which represented "a deep-seated structural problem", he said.

Mr Rexrodt also criticised the US conduct of its trade negotiations with Japan, which he said had "not been conducted particularly cleverly".

He said the US had initially aroused the impression that it wanted to compel the Japanese to accept a rising yen, exchange rate, and then had argued against the sharp drop in the dollar.

"The German view that intervention cannot succeed against the market trend was once again proved correct," he said.

In the US, analysts are divided on the domestic merits of raising rates for a fifth time this year. Some argue that past increases, taking the key federal funds rate from 3 per cent to 4.25 per cent, are sufficient given tentative signs that economic growth is moderating.

Other analysts say further action is needed to prevent the economy overheating. Data on June employment, due on Friday, are expected to clarify the growth outlook and could influence a policy on rates.

Lex Page 16
Currencies Page 40
World stock markets, Page 44

US pledges help on Russian troops in Baltic

President Bill Clinton acknowledges a flag-waving crowd on his visit to Riga, Latvia. He promised US support for fresh efforts to bring about the withdrawal of the last Russian troops from Estonia, Latvia and Lithuania. With him are Estonian president Lennart Meri (left), Lithuanian president Algirdas Brazauskas (second left) and Latvian president Guntis Ulmanis (right) Report, Page 16 Picture: AP

Salomon shares fall after it warns of $200m loss

By Patrick Harverson in New York

Shares in Salomon fell yesterday after the US company revealed it would report a loss of about $200m in the second quarter because of a poor performance from its securities brokerage, Salomon Brothers.

The loss is the latest indication of how the rise in US and European interest rates and the slump in international stock and bond markets this year have hurt Wall Street securities firms.

After an unprecedented three-year period of rising profits, US securities industry earnings have slowed in the past two quarters.

Higher interest rates have raised firms' cost of capital, hurt demand for securities underwriting services and dampened investor interest in financial markets.

Salomon, which reported a steep fall in profits to $66m in the first three months of 1994, is unlikely to be the only firm to have suffered from the turmoil in the markets.

Last week Charles Schwab, the discount securities brokerage, warned that its earnings would be flat in the April-to-June period because of a slowdown in customer activity, and analysts expect other big securities firms to report a decline in quarterly profits in coming weeks.

Salomon attributed the second-quarter loss to poor results from Salomon Brothers' client-driven business, which suffered from declines in the value of its securities inventory and a sharp drop in underwriting activity and customer trading volume.

Typically, bond trading firms like Salomon make money from their client-driven business by profiting from the difference between the prices at which they buy and sell bonds.

But in recent months there have been more sellers of bonds than buyers, and Salomon has been left at the end of the quarter with a large inventory of bonds which have declined in value.

The firm also suffered losses on its proprietary trading operations, where it uses its own capital to trade in global financial markets. Here, analysts said the firm probably made several wrong bets on the direction of interest rates and securities prices.

News of the profits warning hit the share price, which fell $1¾ to $45¾ in early afternoon trading on the New York stock exchange.

Mandela vows resignation will not affect fiscal policy

By Michael Holman and Mark Suzman in Johannesburg

President Nelson Mandela sought to re-establish confidence yesterday in South Africa's economic management following the sudden resignation of Mr Derek Keys as finance minister on Tuesday.

Mr Mandela stressed that Mr Christo Liebenberg, named as Mr Keys' successor, would follow the government's commitments on economic and fiscal policy. "There is no necessity for concern that the policies followed by Derek Keys will be abandoned," Mr Mandela said after a meeting with a Japanese envoy about a $1.3bn aid package Japan is pledging to South Africa.

Mr Mandela also emphasised that Mr Liebenberg's mandate would be to pursue macroeconomic stability and strive to reduce the budget deficit while promoting the government's reconstruction and development programme.

Further reassurance came from Mr Alec Erwin, deputy finance minister, who said the move would not result in a change of policy and that Mr Liebenberg would shortly be brought into finance ministry decisions.

In an open letter to the Johannesburg newspaper Business Day, and published in the Financial Times today, Mr Erwin sought to reinforce the notion that a cautious fiscal policy was central to the economic strategy of the African National Congress-led government. "Fiscal and monetary policy are essential to the reconstruction and development programme. They are not expedients to encourage people to lend us money."

However, neither Mr Liebenberg nor Mr Keys issued any statement yesterday, and uncertainty over the reasons given for Mr Keys' resignation partially undermined the effect of Mr Mandela's assurances. There was also widespread criticism of the handling of the move, which was leaked on Tuesday.

Business and union leaders insisted on a more comprehensive government explanation of the "personal reasons" behind Mr Keys' decision.

Markets remained jittery, and South Africa's overall stock exchange index finished down 47 at 5,404. Bond yields rose further, although the currency market was relatively stable. "Until we know the full reason for the move, new rumours will keep flying around, destabilising the market," one dealer said.

Mr Mandela said that the government had consulted business leaders on Mr Keys' resignation before selecting Mr Liebenberg.

● Mr Christo Liebenberg, South Africa's finance minister-designate, was misidentified in some editions of the Financial Times yesterday. He was chief executive of the banking group Nedcor, not of Bankorp.

Tough player Liebenberg, Page 6
Currencies, Page 40
World stock markets, Page 44

World money system needs urgent reform says former Fed chief

By Michael Prowse in Washington

Reform of the global monetary system is urgently needed to reduce exchange rate volatility, an independent group of experts headed by Mr Paul Volcker, the former chairman of the US Federal Reserve, said yesterday.

The group criticised the consultative process of the Group of Seven leading industrial countries for failing to cope with the task and suggested that it should be done instead by the International Monetary Fund with redefined responsibilities.

The recommendations came in a report released yesterday by the Bretton Woods Commission, which includes former senior ministers, central bankers, and private sector representatives. It urges sweeping reforms of the IMF and the World Bank to reflect big changes in the financial environment since their creation in 1944.

The group said a long-term goal should be to establish "a flexible system of exchange rate bands" – or currency target zones – between the dollar, yen and D-Mark.

However, a more stable exchange rate system would be feasible only if the leading industrial countries reduced macroeconomic imbalances and achieved greater economic convergence – for example, on inflation rates.

The experts said the costs of exchange rate misalignment and volatility were high and had contributed to a halving of the long-term growth rate of industrial countries to about 2.5 per cent a year from 5 per cent before the collapse of the Bretton Woods exchange rate system in the early 1970s.

The alternative to reform was "to continue the present non-system of loose ad hoc co-operation, dominated by the G7 process". That was unlikely to lead to "economic policies that are sound internationally as well as domestically".

While the impetus for reform had to come from the leading industrial countries, the G7 process was not the best means to support the sustained reform effort required. "The G7 process is not an institution, a continuing body, or an executive entity." Its

Continued on Page 16
IMF and World Bank must adapt, Page 5

CONTENTS

LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Brussels clears first of three airline aid cases

By Emma Tucker in Brussels

A big injection of government capital into TAP-Air Portugal, the state-owned carrier, will not contravene European rules on state aid provided the airline restructures itself, the European Commission ruled yesterday.

The Commission's decision has cleared the way for the beleaguered Portuguese airline to benefit from up to Es180bn ($1.1bn) in borrowing guarantees and tax exemption which will finance a "genuine" restructuring of the company.

Yesterday's news comes as a foretaste to the much more controversial decision on state aid to Air France to be taken at the end of this month. The French case will be more closely examined by competitors who argue that government assistance to the French carrier discriminates against them.

Many in the Commission believe that the end of July deadline for the decision on Air France is too ambitious. Brussels will be exceptionally cautious in what it demands of the French for fear that competitors, such as British Airways, will take the case to the European Court once a decision has been made.

The decision on TAP also raises the prospect that the Commission will find in favour of Greek government aid to Olympic airlines, in another impending state-aid case. The Greek aid package amounts to Ecu2bn ($2.4bn), to be split into two parts with Ecu1.1bn absorbing Olympic's previous debts and Ecu9m earmarked for future capital projects.

The conditions attached to the decision on TAP stipulate that the tax exemption in favour of the airline be abolished by the end of the restructuring period; TAP will also not be allowed to increase its European market share; and the Portuguese government will have to submit an annual report on the restructuring to Brussels four weeks before the date of the aid payments.

Furthermore, TAP will not be allowed to acquire additional shareholdings in other carriers and no more aid can now be granted. This last condition is understood to have been insisted on by commissioners Sir Leon Brittan and Mr Karel Van Miert.

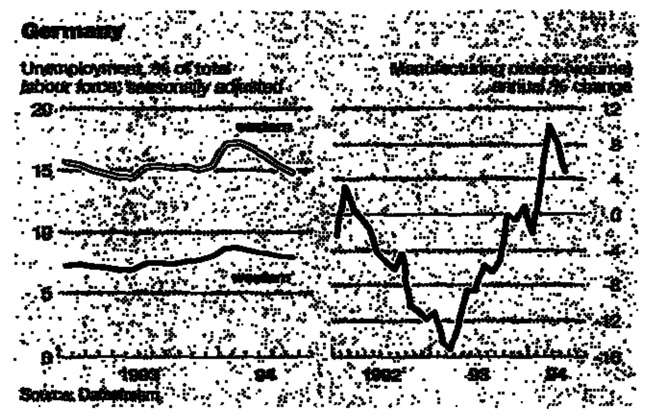
Portugal told the Commission earlier this year of its plans to increase TAP's capital. It said it intended to take over part of the company's debts and guarantee loans made to the airline, as part of an overall package to reduce its workforce and cut most of its transatlantic routes.

The Commission added yesterday that aid used to plug the deficits run up by TAP in flying to the islands of the Azores and Madeira were compatible with European rules. The remoteness of the islands meant the government had to find some way of meeting its public service obligations.

Unemployment down in Germany

First decline in western half of country for almost three years

By Quentin Peel in Bonn



Seasonally adjusted unemployment in west Germany fell by 3,000 in June. It was the first drop since autumn 1991, suggesting a more rapid recovery than expected in the German labour market.

The actual decline in Germany as a whole was 70,900, to 3.59m, with the largest fall in the east, where the total dropped by 42,800 to under 1.12m. The rate in the west was 8 per cent, down from 8.1 per cent; and in the east, 14.8 per cent, compared with 15.4 per cent in June.

The figures were immediately welcomed by the government as proof that economic recovery is well under way. Chancellor Helmut Kohl told a conference of industrialists and trade unionists that he expected the economy to grow more quickly than the 1.5 per cent officially forecast at the start of the year.

However, the relatively slow pace of economic recovery overall was confirmed by weaker industrial order figures in west Germany in May, and a downwards revision of the figures for April.

What the figures do suggest is that domestic economic activity is beginning to recover, taking over from export demand.

The provisional figures for industrial orders in May showed a fractional 0.1 per cent decline compared with April, which in turn was down 0.5 per cent against March, after the adjustment. Year-on-year, the May orders were up 8.1 per cent, nevertheless.

The sharpest decrease month-on-month was in export orders, down 1.5 per cent, whereas domestic orders improved by 0.5 per cent, the federal statistics office said.

Foreign orders have now been performing less well than domestic orders for the past two months, and capital goods, in particular, showed a clear improvement. On the other hand, the year-on-year figures still show a growth in export orders of 9.4 per cent, compared with just 2.1 per cent for domestic ones.

In another clear sign that last year's very sharp recession has finished, the Ifo economic research institute published its forecast of investment plans, suggesting a marginal 1 per cent fall this year, compared with 20 per cent last year.

The 1993 investment collapse was actually the sharpest recorded by the Munich-based institute since it began its investment survey of German industry in 1955. The researchers blamed it on the combination of an inflated investment level coinciding with German unification, and the switch by western enterprises to investing in the east since then.

At the economic conference in Mr Kohl's office, the chancellor warned against any overhasty satisfaction with the evidence of recovery, stressing in particular the problem of structural unemployment. He urged both employers and unions to concentrate on all possible means of job creation.

The evidence of a real recovery in unemployment will certainly be welcomed by the governing coalition as useful ammunition for the general election in October. On the other hand, Mr Theo Waigel, finance minister, is rumoured to be planning further change in unemployment benefit – restricting eligibility to just two years before jobless workers have to switch to a lower level of subsistence-related benefit. He refused to confirm or deny the plan yesterday, but the opposition Social Democrats are seeking to make maximum political mileage out of any such cuts which may emerge when the government publishes its draft 1995 budget next week.

Minister criticises Alitalia managers

By Robert Graham in Rome

Wildcat strikes by Alitalia cabin staff seriously disrupted flights for a second consecutive day yesterday. Staff are opposing radical restructuring plans for the loss-making national airline.

Further disruptions are likely through the weekend and a strike by all the airline's staff is scheduled for July 11. Air travellers also risk delays today and tomorrow as a result of industrial action by air traffic controllers.

Mr Publio Fiori, transport minister, unexpectedly announced an inquiry into the failure of the management to foresee the strike action and avoid inconvenience to the public.

His criticism of management for ignoring the union behind the strikes risks undermining the tough proposals in the restructuring plan.

The union yesterday claimed 75 per cent of the domestic and international flights were cancelled. Alitalia said the figure was 323 flights out of 606.

The union was formed last year by cabin staff who felt the regular unions did not represent their interests. As it has no more than 300 members out of the 18,000 Alitalia staff the management excluded it from restructuring discussion last month. However, the strike has been backed by other unions, making the impact far greater.

The Alitalia management is discussing with the unions a plan to cut 4,000 jobs and completely rewrite existing work contracts (the pay packets of cabin crew are calculated on 504 different elements). This is seen as the first big test of the Berlusconi government's desire to cut restrictive practices, introduce labour flexibility and reduce the padding in state-owned groups.

But the labour problems at Alitalia contrasted sharply with a breakthrough in industrial relations over a new wage and work conditions agreement just concluded between the employers and the 1.5m members of the engineering workers' unions. The agreement, reached for the first time without any strikes, is likely to become the benchmark for all other wage deals – including key public sector pay talks in the autumn.

The agreement is evidence that union leaders and Confindustria, the industrialists' confederation, are prepared to adopt a more consensual approach in the light of last July's historic labour accord ending indexed wages.

Under the engineering unions' agreement, wages to the end of 1996 will rise only in line with the official inflation index. There was no attempt to recover the loss in earning power during the past two years of recessions. But workers will be entitled to year-end productivity/profitability bonuses.

The average working week will be 39 hours.

Mannesmann chief forgoes new post

By Michael Lindemann in Bonn

Mannesmann, one of Germany's largest industrial companies, yesterday acknowledged growing suggestions of impropriety by Mr Werner Dieter, the outgoing chief executive, and decided not to elect him chairman of the company's supervisory board.

The company said Mr Dieter, who will step down as chief executive at the annual meeting tomorrow, will become an ordinary member of the supervisory board and not chairman as originally planned.

The decision comes days after the Düsseldorf state prosecutor began investigating alleged fraud by Mr Dieter, who is said to have forced Rexroth, a Mannesmann subsidiary, to buy hydraulic accessories at inflated prices from Hydac, a company largely owned by Mr Dieter's family.

The engineering conglomerate has already ordered an internal enquiry but this found no evidence against Mr Dieter, 64, who has been chief executive since 1985.

"The examination of the Mannesmann audit reports to date has not substantiated any of the charges against Mr Dieter," the company said. "For the sake of a more comprehensive understanding of the subject matter the supervisory board has decided to commission an external audit by the C&L Treuarbeit AG."

The company said Mr Dieter would not seek to become chairman of the Mannesmann supervisory board, a non-executive board which oversees the company's management, until the external audit had been completed. Mr Friedrich Christians, a former chief executive of Deutsche Bank, will stay on as chairman.

The board also recommended that approval of Mr Dieter's activities as chief executive – in effect a vote of confidence by shareholders – be postponed until next year's annual meeting, the earliest date at which he could take over as chairman.

Mr Dieter recently told the Financial Times the relationship between Rexroth and Hydac had existed for 31 years and had been openly discussed when he took over as chief executive in 1985.

He said the companies were "entirely competitive" and internal company documents had been leaked in an attempt to wreck his chances of becoming supervisory board chairman.

Spiegel, the weekly news magazine, first published the allegations against Mr Dieter a month ago when the company's shares stood at DM446 (£180). The shares fell to DM397 last week on news of the state prosecutor's investigation but picked up DM2 yesterday to DM414.

Bonn threatens action on petrol pollutant

By Michael Lindemann

Mr Klaus Töpfer, Germany's environment minister, warned yesterday that his country would take its own steps to reduce the level of benzene in petrol unless the European Union could find a solution.

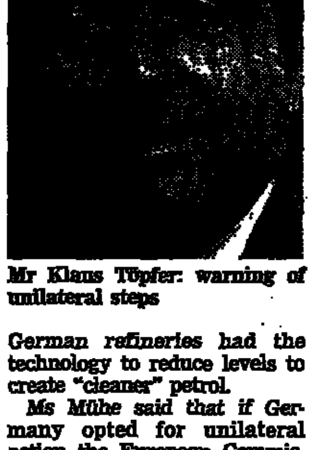
Benzene makes up around 2.5 per cent of petrol and has been identified as a cancer-causing compound. It also creates low-level ozone, better known as summer smog, which causes coughing, eye irritation and lung damage. Mr Töpfer's remarks, only days after Germany took over the EU presidency, are further evidence of Bonn's determination to take unilateral action where it feels other Union members are dragging their feet.

The Bundesrat, the upper chamber of parliament, will decide tomorrow whether to approve an import ban on British beef, a measure Mr Horst Seehofer, health minister, has been campaigning for on the grounds that British imports may be contaminated with BSE or mad cow disease.

Although the European Commission this week approved a draft directive designed to reduce the number of air pollutants, repeated German attempts to start a European initiative to reduce benzene levels have come to nothing, Ms Marlene Mühe of the environment ministry said.

Ms Mühe said reducing benzene to around 1 per cent of petrol would reduce exhaust pipe emissions of the chemical by up to 40 per cent, a measure supported by the Netherlands and Denmark. "If we want to fight the summer smog we have to do battle with the substances that create it," she said.

Unlike lead, benzene is not added to petrol but is created during the refining process. The environment ministry said German refineries had the technology to reduce levels to create "cleaner" petrol.



Mr Klaus Töpfer: warning of unilateral steps

Ms Mühe said that if Germany opted for unilateral action the European Commission would be informed of the reduced levels but this would not require engines to be modified. According to Mr Töpfer, the refining changes would add up to two pfennigs to the cost of petrol.

EUROPEAN NEWS DIGEST

Andreotti may face new charge

Palermo magistrates are pressing for more serious charges to be brought against Mr Giulio Andreotti, former Italian prime minister, over his alleged links to the Mafia, in an attempt to retain control over the highly sensitive investigation into the ageing Christian Democrat politician. The original charge against Mr Andreotti claimed he had links with the Mafia. Palermo magistrates are now understood to want to change this to an allegation that, by providing political proection for Cosa Nostra, the umbrella organisation of the Sicilian Mafia, he was in effect part of the criminal organisation.

Mr Andreotti has denied the charge and through his lawyers is fighting to have the case removed from Palermo to Rome, his home base, where he believes he will obtain a more sympathetic hearing. However, the more serious crime is alleged to have taken place in Palermo and thus comes under that city's jurisdiction. "The important thing is that I have nothing to do with the Mafia and on this point no public prosecutor or law court could prove the contrary," the 75-year-old Mr Andreotti said yesterday. Former Mafia members now co-operating with the authorities under witness protection allege that Mr Andreotti provided political cover for Cosa Nostra and that several of his key political lieutenants in Sicily were members of the Mafia. *Robert Graham, Rome.*

Brussels probes Eko Stahl aid

The European Commission said it had begun proceedings against Eko Stahl, the loss-making German steelmaker, into the legality of state aid to the company. The case increases pressure on the German government to find a way of saving the plant in former east Germany. A rescue plan collapsed two months ago. It assumed that Riva, the private Italian steelmaker, would buy the company, modernise it and cut the workforce from 3,000. Riva's withdrawal means that loans and guarantees paid to Eko Stahl fall foul of Commission guidelines. The chances of a buyer being found, however, appear slim at a time of confusion in the industry over how best to make capacity cuts. The Commission said yesterday that since early May, the Treuhand privatisation agency had provided loans of at least DM15.6m (£6.4m) to Eko Stahl, and had guaranteed DM149m in bank loans. Brussels also announced yesterday that it would investigate the granting of loans by the Hamburgische Landesbank to another steel plant, the Neue Hamburger Stahlwerke, which may again contravene EU guidelines on state aid. It was also looking closely at a third steelmaker, Saarstahl, which refused Commission officials access this week to investigate a DM120m loan to modernise one of its plants. *Emma Tucker, Brussels.*

Jailing in Péchiney affair

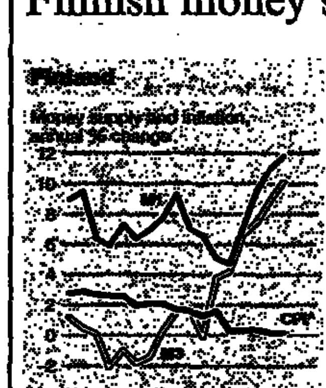
The Paris appeal court yesterday jailed Mr Alain Boublil, the former chief aide to Mr Pierre Bérégovoy, the late Socialist prime minister, after finding him guilty of insider trading in the "Péchiney affair". He was sentenced to two years in jail, one of them suspended. Last September, Mr Boublil was acquitted by a lower court which imposed fines on seven other men of up to FFr25m (£2.9m) and confiscated FFr30m in illicit profits made from buying shares at $10 in late 1988 in Triangle, a US company, just before the state-controlled Péchiney made a bid of $56 a share. The court heard that Mr Boublil tipped off the late Mr Roger-Patrice Pelat, a friend of President François Mitterrand, about Pechiney's plan to bid for a subsidiary of Triangle, a US company. The court upheld a two-year suspended sentence and FFr2.5m fine imposed on another defendant, Mr Max Théret. He admitted Mr Pelat had tipped him off "in a vague way" about the bid. The verdict reflects the French judiciary's tougher attitude to white-collar crime. *David Buchan, Paris.*

Socialist MEPs pick UK leader

Mrs Pauline Green, a former British policewoman, was yesterday elected leader of the Socialist Group in the European Parliament, the dominant bloc in the increasingly powerful assembly. Leadership of the group has been the most influential position in the parliament, which was re-elected last month. Under the Maastricht treaty, the Parliament now has powers to veto laws passed by EU governments in the council of ministers, and can reject the new European Commission the Twelve are struggling to find a president for, in succession to Mr Jacques Delors. Mrs Green, who previously led the UK Labour group (with 62 members now the largest national group), said last week that the parliament's approval would depend on the new Commission president's attitude towards Europe's jobs crisis. Yesterday she received overwhelming backing from Socialist MEPs, who number 199 out of 567. She won 169 votes out of 175 ballots cast. *David Gardner, Brussels.*

ECONOMIC WATCH

Finnish money supply rises



Improved liquidity among companies was an important factor behind the rapid rise in Finland's M1 and M3 money aggregates, a central bank official said yesterday. This reflected better profitability and a return to profit by many companies last year. On the other hand, bank deposits in the household sector had grown much less. M1 rose 11.8 per cent year-on-year in May after a rise of 11 per cent in April, while M3 rose 10.1 per cent after rising 8.9 per cent in April. State debt rose to FM289.1bn (£35.3bn) in June, up FM13.3bn from May.

■ The cost of living in Poland has grown by 12.5 per cent since the beginning of the year, more slowly than in the first half last year when prices rose 16 per cent. Average prices in June were up by 32.5 per cent on the same month in 1993.

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EU court ruling upsets Cyprus peace hopes

By Lionel Barber in Brussels and John Murray Brown in Ankara

A European Court of Justice ruling which in effect bans imports from Turkish-controlled Cyprus has increased the isolation of the Turkish Cypriot community and injected a new, unpredictable element into UN-backed peace efforts on the divided island.

The court order – that local export licences issued by the Turkish Cypriot authorities were not valid on the grounds that the EU recognised only the Greek Cypriot government – was condemned yesterday by Mr Rauf Denktash, Turkish Cypriot leader.

"This kind of decision obtained by the Greek Cypriots from international forums will only push the two communities to absolute and permanent separation," said Mr Denktash.

But a senior Greek Cypriot official in Brussels described last Tuesday's ruling as far-reaching since it weakened the Turkish Cypriot community's claim to be treated as a separate legal entity. "It is the most important development on the Cyprus issue in the past 20 years."

The ban on potatoes and citrus products is a blow for the 160,000 Turkish Cypriots who formed a breakaway state after Turkish forces invaded the island in 1974. Growers depend heavily on the export market, though in practice they may simply reroute their products through Turkey.

Diplomats were trying to assess the impact of the ruling on UN efforts to broker an agreement on confidence-building measures between the Greek and Turkish communities, including the re-opening of the Turkish-held resort of Verosha and Nicosia international airport under UN control.

According to Greek Cypriot officials, Mr Denktash was told last month that re-opening Nicosia airport would have allowed Turkish Cypriot exporters to obtain licences from the Greek authorities. "But Denktash was too greedy, he turned the offer down," said one official.

In the short term, the ban could lead Mr Denktash to stiffen resistance to a settlement, or to ask Turkey for more economic and political support, EU diplomats said.

But Greek Cypriots said the rejection of the Turkish Cypriot community's legal status could increase pressure on Mr Denktash to reach a compromise.

They pointed to the European Commission's recent move to review Cyprus's application for EU membership in early 1995 in the context of progress in resolving the dispute between the Greek and Turkish communities. This formulation was widely seen as a pressure tactic against the Turkish Cypriots.

Competition brings hard times for Portugal's farmers

By Peter Wise in Lisbon

Competition within the European single market is cruelly exposing the backwardness of Portuguese agriculture. Red Cross workers began delivering food parcels this week to the destitute families of unemployed farm workers in the Alentejo, the southern grain, wine and olive-growing region.

Angry fishermen in the northern port of Matosinhos yesterday attacked two Spanish lorries, tipping into the street the fish that Spanish companies manage to truck into Portugal faster and cheaper than local fishermen can land their catches.

The Trade Ministry yesterday announced an inquiry into commercial practices in the dairy sector after bitter complaints by Portuguese co-operatives that an Italian company was using unreasonably aggressive tactics to win a share of the Portuguese milk market.

Farming and fishing have been central to the Portuguese economy for centuries and strong emotions are being aroused by an increasingly visible withering of the sector. The numbers of agricultural workers has fallen from 20 per cent of the total workforce in 1986, when Portugal joined the European Union, to 10 per cent today.

In particular, the plight of farm workers in the Alentejo, once the heartland of Portuguese agriculture, is aggravating tensions between the centre-right government and its critics. Meagre state subsidies are not enough to support the families of unemployed labourers in a region where the jobless rate is almost double the Portuguese average and the suicide rate is the highest in Europe.

Mr António Campos, agriculture spokesman for the opposition Socialist party, says agricultural earnings in Portugal have fallen 45 per cent over the past three years and the value of farmland has been halved in two years. The country produces only a quarter of what it eats, compared with 50 per cent in 1986, he says.

This, he claims, is a result more of inadequate government policies, than of competition in the single market. He says the earnings of Spanish farmers have increased 22 per cent since 1991 and Spain has not only conquered the horticultural market in Portugal but also won 30 and 15 per cent of French and German markets respectively.

Mr Campos and other critics say the Es1,000bn (£3.95bn) in EU funds Portugal has invested in agriculture since 1986 have been spent unwisely and are equivalent to less than half the loss in earnings farmers have suffered over the same period. An independent study shows that the bank debts of Portuguese farmers last year totalled Es380bn, almost equal to the Es400bn earned by the sector, and that a third of debts are likely to be irrecoverable.

But Mr Aníbal Cavaco Silva, the prime minister, yesterday hit back at critics of his agricultural policies and denounced those clamouring to protect the sector from European competition. In a state-of-the nation address to parliament, he said that although the agricultural workforce had been halved over the past eight years, the value of agricultural production was the same.

"It is pure illusion to think that the way forward for our agriculture lies in closing our frontiers or keeping a large workforce on the land," he said. "We have to be realistic and face the facts."

A poll about the state they're in

Ukraine's president has turned voters' minds to nationality and away from the devastated economy, write **Chrystia Freeland** and **Jill Barshay**

Khmelnytsky in Kiev: memories of brief independence *James Hill*

The square outside Kiev's central cathedral is dominated by a statue which captures the ambivalence at the heart of Ukraine. The towering figure of Bohdan Khmelnytsky, the leader of a cossack rebellion against the Poles in the 17th century, astride a leaping stallion would appear to be a potent national symbol. But after overthrowing the Poles, Khmelnytsky made an alliance with Moscow which began more than three centuries of Russian domination.

When they go to the polls this Sunday in the second round to elect a new president, Ukrainians will still be contemplating Khmelnytsky's mixed legacy of a fleeting independence and an enduring dependence on Russia.

President Leonid Kravchuk, whose disastrous economic record led many observers to predict inevitable electoral defeat, is trying to orchestrate a political resurrection. His method, which most western and Ukrainian observers predict will bring him a slim victory in the poll on Sunday, has been to shift the campaign from economic issues to the question of Ukraine's continued existence as a separate state.

"This is a second referendum on independence," says Mr Dmytro Pavlychko, a leading figure in the national democratic opposition, turned ardent Kravchuk supporter. "That is why it is so crucial for Kravchuk to win."

To position himself as the only leader who can guarantee Ukraine's continued existence, Mr Kravchuk has launched a campaign to portray his opponent, former prime minister Leonid Kuchma, as Russia's candidate. Despite Mr Kuchma's best efforts – he has begun to speak a slightly hesitant Ukrainian and insist on his patriotism – the efficacy of Mr Kravchuk's strategy has been evident on the campaign trail and in the first round of voting, held nearly two weeks ago.

Even in central Ukraine, never a hot-bed of national sentiment, Mr Kuchma has been faced with voters who ask: "Would you prefer to be the governor of Little Russia [the tsarist term for Ukraine] or president of an independent state?"

In the first round Mr Kravchuk drew 38 per cent of the vote, mostly in central and fiercely nationalist western Ukraine. Mr Kuchma won 31 per cent, largely in the more Russified eastern and southern regions, where many people would prefer closer links with Russia.

The real reformers on the Ukrainian political scene are furiously, but impotently, resentful of Mr Kravchuk's apparently successful attempt to elude responsibility for the country's economic devastation by playing the national card.

"Ukrainians can't eat their national flag and Ukraine can't survive on national symbols alone," says Mr Serhii Holovatyi, an MP of the free-market "Reform" faction in parliament. "I think that Kravchuk will win and his victory will mean that the idea of statehood has not died entirely, but that doesn't mean that the idea of statehood doesn't hang by a mere thread."

Part of the problem is that, although Mr Kuchma's image as a Russian pawn owes less to his real convictions than to Mr Kravchuk's political skill, he has failed to live up to his supporters' hopes that he would offer a clear economic alternative to the administration.

Mr Kuchma has promised to alter Ukraine's punitive taxation policies, its fixed exchange-rate system which discourages exports and to speed up privatisation. So has Mr Kravchuk.

To further muddy the waters the Communist party was this week widely reported to be backing Mr Kuchma. Western diplomats at first felt that this might swing the election in Mr Kuchma's favour, but some Ukrainian insiders have suggested that the Kravchuk-controlled Ukrainian media are intentionally exaggerating the strength of communist support for Mr Kuchma, in an effort to undermine his reformist credentials.

Nowhere is Mr Kuchma's failure to position himself as the candidate of economic reforms more evident than in his natural constituency in eastern Ukraine. While his populist promises of swift prosperity through closer economic relations with Russia are likely again to win him a majority of the vote in the east, the business community in Mr Kuchma's own bailiwick is reluctantly turning to the incumbent.

"I support Mr Kravchuk," said Mr Alexander Bulianda, of general manager of Azovstal, Ukraine's largest steel-mill and one of the few state enterprises in the country which is beginning to reform. "Mr Kuchma is from the old, privileged military-industrial complex and he sees the old system through rose-coloured glasses. At least if Mr Kravchuk is re-elected we can hope that he will allow the cabinet of ministers to run the economy and concern himself with politics."

A growing number of Ukrainians are putting their faith instead in Mr Vitalii Masol, the new prime minister. His past as a Communist party functionary would appear to disqualify him from acting as an agent of market reforms, but progressive cabinet ministers and industrialists throughout the country have begun to say that Mr Masol, like his Russian counterpart, Mr Victor Chernomyrdin, has undergone a political conversion to the market.

There was some evidence of this yesterday when Ukraine's minister of finance, Mr Hryhori Pyatachenko, who was widely seen as inept, was replaced by Mr Petro Hermanchuk, who speaks for the sorts of reform the International Monetary Fund would like to see.

If Mr Masol does begin market reforms, he will have to contend with the hard-line left who make up the largest bloc in parliament, led by the socialist speaker, Mr Oleksandr Moroz. But outside the central government, a constituency for reform is slowly growing.

Reform-minded politicians have done well in municipal and local elections. Reformist mayors stand a good chance of winning on Sunday in Kiev and Odessa and reformers have done well on a local level even in eastern Ukraine, where the communists made their strongest showing in parliamentary elections in April.

When Ukrainians elected their first president in 1991 they went to the polls with the festive spirit of a nation ridding itself of centuries of Russian domination and decades of communist rule. Their government's lacklustre performance over the past three years has made them more cynical. No matter who they elect on Sunday, few Ukrainians have much hope that their next president will be the source of real, desperately needed, change.

Bolivar pegged in new foreign exchange controls

Caracas fixes single rate against dollar

By Joseph Mann in Caracas

The Venezuelan government announced a single exchange rate of 170 bolivars to the US dollar late on Tuesday, following more than a week of deliberations on new foreign exchange controls.

On June 23, the last day of trading, the bolivar stood at about 200:$1, down from 106 at the end of 1993.

The imposition of exchange controls came after months of heavy pressure on Venezuela's international reserves, caused by a crisis in the banking system, much rumour and a marked deterioration in the economy.

Announcing the controls, Mr Julio Sosa, finance minister, said he hoped they would be temporary. They would be accompanied by a series of macroeconomic measures aimed to balance the 1994 and 1995 budgets, he said, giving no details.

The government had rejected the idea of a parallel free market in foreign exchange, he said, because it feared "destabilising agents" would create an unacceptable gap between the official rate and the parallel rate. Any foreign exchange trading outside the official system would be illegal and subject to penalties, he warned.

The controls will cover imports, expenses of Venezuelan students abroad, external debt payments for the public and the private sector, spending by travellers, and "small remittances" by foreigners in Venezuela to relatives abroad.

Officials stressed that the government would meet all international commitments and provide foreign exchange to international investors, to allow for profit remittances. Mr Sosa also argued that the new exchange rate would help international investors, by removing the penalty of the "speculative" exchange rates seen in recent months.

He said the system of assigning foreign exchange would be "highly automated and transparent", and would be set up with the help of PDVSA, Venezuela's national oil company.

However, foreign exchange trading at the new rate was not to resume yesterday, as planned, due to "technical questions" at the central bank. Commercial banks said yesterday that they expected trading to resume on Monday.

The new programme is Venezuela's fourth foreign exchange system since President Rafael Caldera took office in February. The first was a crawling-peg system used by the central bank until its president, Mrs Ruth de Krivoy, resigned at the end of April over disagreements with the Caldera administration. This was followed briefly by a limited auction system at the central bank, then by a modified version of a Dutch auction, in effect until June 23.

Mr Sosa stressed that the government has enough monetary reserves to meet Venezuela's import and foreign debt obligations, but not enough to finance capital flight. Officials estimate "normal" foreign exchange sales to be about $30m (£19.5m) each business day. PDVSA supplies the central bank with about $40m a day from oil exports.

The central bank has not issued figures on monetary reserves since April, when the bolivar began to slip, but a Caracas daily, citing figures from the government planning office, reported that gross international reserves at the end of May stood at $9.9bn, down 21 per cent from $12.6bn at the end of 1993.

Paraguay seeks private finance for $4bn dam

By Stephen Fidler, Latin America Editor

The Paraguayan government is seeking private participation in the country's third giant hydro-electric project, President Juan Carlos Wasmosy said yesterday.

The 4,000MW Corpus Cristi dam would lie between two huge existing hydro-electric dams, Yacyretá and Itaipú. According to initial engineering projections, the $4bn (£2.6bn) Corpus dam would be more efficient than either and yield an internal rate of return on investment of 27 per cent.

If built, it would be by far the largest electrical project in the world financed by the private sector. Mr Wasmosy has agreed with President Carlos Menem of Argentina to privatise the Yacyretá dam, on the Argentine-Paraguayan frontier.

Speaking in London, Mr Wasmosy said the government also intended to move ahead with its privatisation plans. It wants, through joint ventures or privatisation, to divest itself of five enterprises: the steel and cement plants, the merchant fleet, an alcohol and spirits plant, the railway system and the national airline.

According to ministers travelling with the president, bidding for the money-losing airline, which has ceased operations, will open on July 8. A draft law now before Congress will give workers and suppliers 10 per cent each of the privatised companies at concessional terms. Telephone, water, electricity utilities and some other companies will remain in government hands.

Mr Wasmosy said a summit of heads of state of Mercosur, the trade group which includes Brazil, Argentina and Uruguay, will take place on August 5 to finalise details of a common external tariff. He was confident this would take effect at the beginning of next year. Yesterday he met Mr John Major, UK prime minister, and Mr Douglas Hurd, foreign secretary, signing accords on investment protection and on co-operation against drug trafficking.

Right: President Wasmosy

Menem condemns 'senseless' union protest

By Carmen Pignotti in Buenos Aires

Thousands of demonstrators yesterday converged on Buenos Aires, the Argentine capital, for a rally against the government's economic policies as President Carlos Menem criticised the nationwide protest by public sector unions as "senseless".

The president said that the so-called Federal March, the largest protest against his free-market reforms since he took office in mid-1989, was "a direct blow to the country, not the government".

"It's a senseless and aimless march," Mr Menem said. "They will achieve absolutely nothing."

The streets of Buenos Aires were nearly empty early yesterday as police cordoned off access routes to guarantee security during the rally, which drew thousands of disgruntled civil servants, students and a handful of farmers.

The march, backed by trade unions and political parties ranging from the hard left to the ultra-nationalist right, set off from Argentina's northern and southern tips on Monday. By noon yesterday, some 16,000 protesters had reached the capital and the count was expected to hit 40,000 as four huge convoys of buses wound their way into the city.

Worried about the possibility of riots, similar to the outbreaks that rocked several provinces earlier this year, the government sent 20,000 policemen into the streets of the city.

Mr Menem, whose sights are set on re-election next year, dismissed the possibility of popular endorsement of the march, arguing that his fellow-citizens would not spurn a programme which had brought inflation down to its lowest levels in four decades.

"Argentines are not going to shoot themselves in the foot," he said.

He also appealed for support from employers, urging them to punish workers by docking pay for days spent absent at protests.

WORLD CUP

Where dribbling is child's play

Peter Berlin in New York on the next generation of soccer fans and the star players they idolise

Soccer in the US is the world's largest child-minding service. The US Soccer Federation claims 16m registered players – more than any other Fifa member – of whom most are children.

At World Cup games, middle-aged middle Americans are a common sight. Almost always they are being led through colourful crowds by an excited child wearing a T-shirt commemorating his or her participation in some age-group soccer tournament.

Fifa and the World Cup organisers have played the child card ruthlessly. The ceremonies at each stadium consist largely of poorly-drilled hordes of children, clad in youth-league kit, parading round the ground holding flags and balloons.

Before each game, half-a-dozen children carry the yellow "Fair Play Please" banner on to the field to the tune of the Fifa anthem. There is calculated naivety in this, as anyone who can recall their childhood soccer – or who has watched children playing unsupervised – will know.

Park or playground "rules" are highly negotiable. Touchlines and goal-lines are elastic. Goalkeepers change without warning. Games often end in heated, perhaps violent debate over some foul.

Yet one thing children rarely do is kick each other. And suddenly the professionals are kicking each other much less often, too – not in the interests of fair play but because referees have been punishing them.

The World Cup record for yellow cards, 163, set in Italy four years ago, was broken last Saturday, the mid-way point. By Tuesday the total was 198 after 44 matches. Sendings-off are rising – five in the last three second-round games – leaving matches with the unbalanced look of park games, where sides always seem to be picked from an odd number of players.

There is another influence at work. The heat has sapped the professionals' stamina. Last Saturday's game between Saudi Arabia and Sweden, in blazing afternoon Dallas, resembled a three-hour game between 11-year-olds in a hot summer park.

The impression that this was a children's game was heightened by the way the Saudis play. The Swedes are typical products of western European professional soccer – scouted by clubs in their teens or earlier; coached from an early age; accustomed from youth to playing in organised leagues.

They have been taught to forget what every child knows about soccer. With the exception of Tomas Brolin and, once, Kennet Andersson, the Swedes knew better than to dribble the ball past opponents. They know that if they dribble they will be kicked, or might lose the ball – the cardinal sin – and have no-one to blame. How much easier not to take chances.

But the Saudis took risks. Time and again Saeed Owairan tried to unpick the Swedish defence, as he had Belgium's, with mazy dribbling. Hamzah Falatah tormented the full-backs with feints and dummies. Finally, Fahad Al-Ghashiyan scored the goal his team deserved with a move straight from the park.

Where most European pros, wide by the goal-line and confronted by a defender, have turned and rolled the ball back down the wing to a supporting player, Fahad Al-Ghashiyan did what any child unworried by failure, unwilling to surrender the precious ball, eager to show off, would have tried. He ran at his man, beat him and banged home a goal.

This childlike quality, not to be confused with innocence or under-development, has not been totally expunged from European soccer. Jason McAteer, at 24 one of the babes of the Irish squad, started the season unsure of a regular place at Bolton Wanderers, a lowly English first division team. He ended it by playing in the World Cup, chasing Franco Baresi round Giants Stadium. McAteer was a breath of fresh air, trying to dribble at Paolo Maldini or flick the ball over Frank Rijkaard's head.

The Saudis do not just dribble. They also take evident pleasure in the feel of the ball. Each pass was delivered with an unnecessary but attractive flourish; each pass received with a little juggle of joy.

One of the delights of this tournament has been the reminder that the range of soccer possibilities is a wide one. The Asian and African teams, Brazil, Mexico and Colombia, have all solved the simple problems of soccer in distinct ways.

They kick and trap the ball differently. Their formations are different. In familiar situations they produce unfamiliar passes, or dribble when they should not. But dribbling takes courage, flamboyance and close-ball skills.

Children in playgrounds and parks all over Europe will try to emulate them, just as they always try to emulate players who bring the most childlike qualities into play. This is why Ryan Giggs, Manchester United's child-faced dribbler, is the hottest commercial property in English soccer.

It is why the most interesting players in this World Cup are those who remain recognisably children playing a children's game, such as baby-faced Gary Kelly, the Irish full-back, who insisted on dribbling out of defence, risking all for a chance to display his pace and skill. There is Marc Overmars, the tiny Dutch winger, one of several examples of the success of the Dutch system in nurturing a youngster's love of the dribble.

There is pudgy Tomas Brolin of Sweden and Sergi, the dribbling Spaniard. Nigeria fielded an entire team composed of players barely out of their teens.

There is Romario of Brazil, refusing to pass to team-mates in better positions, abandoning his position to drop back to mid-field because he wants more of the ball, refusing to acknowledge team-mates who create scoring chances for him, yet somehow much more interesting than the equally talented, nicer, more mature Bebeto.

There was always a Gheorghe Hagi in the parks of my childhood. Hagi is the best boy on the field, and knows it. He often expects the other Romanians to do the things he does not like: running, defending, tackling. His effort in the second half against Switzerland was that of a sulking child. For all his talent he is simply too unappealing to inspire imitators.

And then there is the greatest child-genius of all: Diego Maradona, who carried the hopes of Argentina from his early teens, a player deprived of a childhood, except that his whole life has been a childhood. After his drugs-bust he blamed other people – adults – for his downfall.

Children, as adults often forget, can be clear-eyed and forgiving in judging fallen heroes. If you go down to the park today, among the children imitating Saeed Owairan's dribbles, Martin Dahlin's flying headers, Romario's shooting and the Cameroonian goal wiggle, there will be others trying to emulate Maradona's goal against Greece and his screaming, eye-bulging, celebratory run at the camera afterwards.

Maradona. A child playing a child's game without a child-minder. It shouldn't have been allowed.

Brazil's Bebeto in anguish after a miss in the game against the US Reuter

Brazilian star faces Fifa ruling on suspension

The fate of Leonardo, the Brazilian defender who faces suspension for cracking the skull of the USA's Tab Ramos in the World Cup's second round, was being decided yesterday by Fifa.

Soccer's governing body is trying to combat thuggery and has already suspended one player for three games after a foul that did less damage than Leonardo's blow.

The Brazilian will certainly miss Saturday's quarter-final against Holland, and may be banned for the rest of the tournament.

In the US-Brazil game, Ramos and Leonardo tangled for the ball near mid-field. Ramos was spun round and struck on the left side of the face; he lost consciousness for several moments and was taken to hospital for observation.

■ Quarter-Finals

Saturday, July 9
Match A: Spain vs Italy
Boston 5pm
Match B: Holland vs Brazil
Dallas 8.30pm

Sunday, July 10
Match C: Germany vs Bulgaria
New Jersey 5pm
Match D: Romania vs Sweden
San Francisco 8.30pm

■ Semi-Finals

Wednesday, July 13
Winner match A vs Winner match C,
New Jersey 5pm
Winner match B vs Winner match D,
Los Angeles, 12.30am Thurs

■ Final

Sunday, July 17
Los Angeles 8.30pm

Italian press sings team's praises

Like shot starlings, Italy's dailies changed tune after Italy's classy extra-time defeat of Nigeria on Tuesday, which put them into the quarter-finals against Spain. For more than a fortnight the Italian press has rubbished the team, the coach and especially star Roberto Baggio. But Baggio scored with two minutes to go against Nigeria, then banged in an extra-time penalty.

La Gazzetta dello Sport's banner headline said: "Italia: Baggiooooo!" while Il Manifesto managed: "Forza Buddha" (Let's Go Buddha) referring to Baggio's religion.

Celebrations were marred in Naples where Salvatore Oliva, 7, was accidentally killed when his 15-year-old cousin fired his father's pistol to celebrate, news reports said. The cousin was charged with manslaughter.

Car output falls during Brazil games

Brazil's car production last month was 6.8 per cent higher than a year earlier, but 8.2 per cent down on May. The fall was due to time lost watching Brazil play in the World Cup, said Luiz Adelar Scheuer, president of the manufacturers' association.

Tournament marks high and low points

World Cup highlights after 44 games:

Most goals in one game by one player: Oleg Salenko, Russia, five goals against Cameroon, June 28; Russia won 6-1.

Most cards in one game: 10 cards in Italy-Nigeria, July 5 (nine yellows, one red), and 10 in Mexico-Bulgaria, July 5 (eight yellows, two reds).

Largest crowd: 93,869 at US-Romania, Pasadena, June 26. Some 2.9m spectators watched the first 44 matches.

Smallest crowd: 44,132, Nigeria-Bulgaria, Dallas, June 21.

Most-watched game in the US: America's 1-0 second-round loss to Brazil, July 4, was the highest-rated soccer telecast ever in the US, Nielsen Media Research said. ABC Television estimated that 32m viewers tuned in.

Penalties: 13 have been awarded in regulation time, and all produced goals.

NEWS: THE AMERICAS

Clinton's policy options shrinking on Haiti

By Jeremy Kahn in Washington

A new US approach on refugees and the dispatch of a Navy amphibious assault group may have bought some time for the Clinton administration over Haiti, but critics charge that it is quickly sinking into a policy crisis.

Haitians have gone to sea in record numbers since May when President Bill Clinton reversed a standing policy – begun under the Bush administration – of returning all Haitians picked up at sea to Haiti for US processing.

Asylum hearings started on naval ships stationed near Jamaica and on the Turks and Caicos Islands, prompting reports that the floating processing centre near Jamaica was granting asylum at three times the rate of the processing in Haiti.

In an attempt to stem the tide of sea-borne refugees prompted by such reports, the administration switched policy again. The US now will no longer offer boat people asylum but will provide up to 10,000 of them safe haven in Panama, under a six-month bilateral agreement. Other safe-haven agreements are being arranged with the Caribbean states of Dominica and Antigua.

Mr William Gray, Mr Clinton's special adviser on Haiti, defends the new policy as a continuation of Mr Clinton's decision not to return all Haitians to a country where they face possible persecution. The new policy was necessary, he says, to prevent more drownings at sea, while providing safety for those fleeing the Caribbean state.

Mr Gray has also said the dispatch of more warships to the region was necessary to safeguard the lives of US citizens and dual nationals – 4,000 of whom are still in Haiti – as well as the lives of 2,700 other foreigners, including UN officials.

Mr Gray is confident that the administration will be able to restore exiled President Jean-Bertrand Aristide to power, either by diplomacy or by force. He said yesterday that Haiti's military regime would not be in power six months from now.

For the Clinton administration, the clock is ticking and the number of policy options is shrinking. The safe havens being set up under the new US policy are only temporary. Amnesty International and other groups have documented an increasing number of human rights violations – including the use of rape to intimidate Aristide supporters – and there are varying reports on the effectiveness of sanctions against the regime of Lt-Gen Raoul Cedras.

Many observers believe Gen Cedras's links to Colombian drug cartels – which shipped by some estimates \$250m (£162m) to \$500m worth of cocaine through Haiti last year – and to the government in the neighbouring Dominican Republic will enable him to hang on indefinitely, raising the spectre of US military intervention.

The Pentagon's decision to send four amphibious assault ships carrying 2,000 Marines to the region is an attempt to put pressure on Gen Cedras, whose army consists of no more than 7,000 ill-trained and ill-equipped men, to step down. The US is reported to have offered him and other leading members of the military regime money and promises of amnesty if they leave Haiti.

But there is a risk that the military junta will call Mr Clinton's bluff, forcing US military action.

Experts warn that Haiti is fast becoming a defining issue for Mr Clinton. As the Marines sail for Haiti and the state department scrabbles for a diplomatic solution, the next few weeks will determine if US policy on Haiti sinks or swims.

IMF and World Bank 'must adapt to new global financial landscape'

Review calls for clearer roles after 50 years, writes Michael Prowse

Sweeping reform of the International Monetary Fund and World Bank is needed if these institutions are to remain relevant after radical changes in the global financial landscape since their creation 50 years ago at Bretton Woods, New Hampshire, an independent commission says.

The IMF should concentrate on managing the global monetary system and play less of a role as a development agency. The Bank should focus on promoting growth of the private sector in third world countries and improve its overall efficiency by rationalising activities and sharply cutting staff.

The recommendations for far-reaching changes in the goals and organisation of the IMF and Bank were released yesterday in a report by the Bretton Woods Commission, an independent group led by Mr Paul Volcker, the former chairman of the US Federal Reserve, and containing former senior ministers, central bankers, academics and private-sector financial experts.

The commission also proposes radical reforms of the international monetary system to reduce exchange rate volatility and improve the prospects for sustained economic growth. The long-term goal should be the creation of "flexible exchange rate bands" – or target ranges – for the dollar, D-Mark and yen.

However, the commission says, a managed system of currency zones would not be feasible immediately. The leading economies must first strengthen their macroeconomic policies, for example by cutting budget deficits, and achieve greater economic convergence on key variables such as inflation.

The report says the IMF should be given the central role in co-ordinating macroeconomic policies and in developing and implementing the proposed new system of flexible exchange rate bands. The commission believes such a task can be undertaken only by an institution such as the IMF; it cannot be achieved through ad hoc consultation among Group of Seven finance ministers – an unrepresentative group that lacks even a permanent secretariat.

The quid quo pro for a larger role in global monetary management – the task for which the IMF was designed – is that the Fund should withdraw from much of its work in developing countries and the formerly centrally planned economies. It should "avoid duplicating functions" of the Bank, which ought to have the principal responsibility for promoting long-term economic development.

In a staff review attached to the main report, the commission argues that a clear division of labour between the IMF and Bank will be achieved only if the IMF stops pursuing independent programmes in the poorest developing countries and instead confines itself to providing macroeconomic input to programmes run by the Bank. This would entail a big change in present policy as the IMF has recently expanded its concessional lending programmes for the poorest countries.

Where an overlap in functions is unavoidable, the commission urges more effective co-operation between the two institutions, including sharing of "data, training and research". At present both have large research departments.

The commission says criticism of the IMF for imposing "harsh or inappropriate" conditions on loans is generally invalid. However, the IMF should "explain itself better and be less secretive about its operations". It needs to seek broader public support for economic reforms by conducting negotiations more openly and by publishing more of its analysis.

The commission also notes a disturbing decline in the quality of executive directors to the IMF and Bank in recent years and argues that both institutions need to create formal mechanisms whereby they can receive advice from outsiders. One option would be to set up external advisory committees of senior individuals from the private sector.

The commission considered arguments for the abolition of the Bank but concluded it has an important role to play in promoting development, despite the greatly increased availability of private-sector equity and bond finance. However, it argues that sweeping changes are needed in both the Bank's goals and internal organisation.

The report says the Bank still focuses too heavily on promoting public-sector development projects. It should, but does not, operate on the maxim that "development assistance should be directed only at what the private sector cannot or will not do".

The Bank does too little to speed the transformation from state to market and still supports "too many state-owned enterprises". It has failed to adapt to "a world that has turned from public sector dominance towards private enterprise and free markets".

The commission indicates that the Bank's Articles, which do not allow it to lend to the private sector except with a government guarantee, are no longer appropriate. But rather than change the Articles, it says, the Bank should expand affiliates such as the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (Miga) that are not so constrained. It should also "revitalise its co-financing programmes" with private lenders.

The report stresses that the IFC's ability to promote private sector development is seriously hampered by its limited capital. The Bank should assign the IFC "additional resources of people and finance". The IFC could then help stimulate larger volumes of private financing, for example for infrastructure projects, allowing a shrinkage of the Bank proper.

The commission says the Bank should work harder to "concentrate its assistance in those countries where the need is greatest". In the staff review attached to the main report it says the Bank should apply a "market access", as well as an income, test when considering offering support. Countries that are able to borrow at reasonable rates from international capital markets should cease to qualify for Bank loans, even if they are poor.

However, the Bank's main shareholders should continue to fund the International Development Agency (IDA), the Bank affiliate that makes soft loans to the poorest countries. But the Bank should lower the threshold income level at which soft loans are available and impose stiffer "graduation requirements" – in other words stop giving IDA loans to countries that do not need concessional assistance.


Volcker: his commission advises far-reaching changes *Ashley Ashwood*

The report says the Bank could play a valuable role in co-ordinating and directing the development assistance presently offered on an ad hoc basis by numerous other agencies and governments. It should also co-operate more closely with the regional development banks and try not to duplicate their work.

The commission is critical of the Bank's internal organisation and says steps to improve its efficiency and effectiveness should be an urgent priority.

"There is scope for the Bank to shed staff significantly as it becomes more efficient and for both the Bank and the regional banks to consolidate as they rationalise their responsibilities."

In the staff review, the commission notes that "as little as 7 per cent of the time of a task manager – a front- line officer responsible for relations with clients – is spent in actual contact with the country on which he or she works." This suggests there is "extraordinary scope" for the Bank "to reduce the time staff spend talking and writing to one another".

Bretton Woods: Looking to the Future. 1900 M St NW Sutie 450 Washington DC 20036

Baby Bells open legal campaign

By Martin Dickson in New York

Four of America's "Baby Bell" local telephone companies yesterday launched a legal battle aimed at freeing them from a 10-year ban on competing in the long-distance telecommunications market and from manufacturing telecommunications equipment.

The campaign ran into strong opposition from consumer groups and long-distance telephone companies, arguing that the ban should not be lifted because the Baby Bells remained local monopolies.

Bell Atlantic, BellSouth, Nynex and Southwestern Bell filed a motion asking Judge Harold Greene of the federal district court in Washington, DC, to give up the powers he wields over the seven Baby Bells under the Modified Final Judgement.

This is the legal settlement of an anti-trust case which led in 1984 to the spin-off of the Baby Bells from AT&T, which was left with its long-distance operations and equipment manufacturing. Because of their local monopolies, the Baby Bells were banned from these markets.

The Bells said changed telecommunications market conditions made the MFJ contrary to the public interest. They produced evidence from 47 prominent economists who argued that lifting the judgment would increase price competition in the long-distance market and promote the invention of better telecommunications equipment. They also claimed that they faced local competition from other telecommunications companies.

However, opponents of the Bells' entry into the long-distance market pointed out that they still account for some 98 per cent of telecommunications traffic in their local regions.

The Bells said the court case was a parallel initiative to their push for favourable congressional legislation.

Jordan, Egypt to join Gaza talks

By David Buchan in Paris

Israeli and Palestinian leaders yesterday agreed to invite Egypt and Jordan to join them in a conference on Palestinian refugees and to create joint committees to discuss unresolved issues on the Gaza-Jericho accord and the transfer of civilian responsibilities to Palestinians in the rest of the West Bank.

Israeli Prime Minister Yitzhak Rabin and Mr Shimon Peres, his foreign minister, met Mr Yassir Arafat, leader of the Palestine Liberation Organisation, in Paris yesterday.

After their first meeting since their May 4 agreement in Cairo on self-government for Gaza and Jericho, they were due last night to resume their discussions.

The two sides remain in disagreement over the number of Palestinian refugees displaced by the 1967 war, with Israel apparently putting the number at 200,000; the PLO estimates the number at 860,000.

Mr Arafat said his meeting with Israeli leaders had been "positive and fruitful". But he urged Mr Rabin to show "more co-ordination and comprehension" to reinforce the peace agreements, first signed last September in Washington.

He said he had raised the issue of Israel's detention of Palestinians and its "isolation of Jerusalem" from the peace process.

Reuter adds from Tunis: A member of the Palestinian authority set up to run the Gaza Strip and Jericho will attend a business meeting in East Jerusalem on July 20, he said yesterday.

Mr Ahmed Korei, better known as Abu Ala, who is in charge of economy and trade in the Palestinian authority, said he had accepted an invitation to address a meeting expected to be attended by 500 Palestinian businessmen from the West Bank and the Gaza Strip. who is

King Hussein of Jordan began talks with Egypt's President Hosni Mubarak on Amman's accelerated peace process with Israel, due to pick up later in July. Mr Mubarak welcomed the king at Alexandria airport and brought him to the presidential palace by helicopter.

Officials in Amman said King Hussein wanted to strengthen his country's ties with Egypt ahead of the first Jordanian-Israeli negotiations later this month. The two leaders will also discuss plans to set up a committee with the PLO and Israel to deal with Palestinian refugees from the 1967 Middle East war and regional economic co-operation. before they can sign a peace deal.

Liebenberg, tough player who delivers the goods

Mark Suzman looks at the career and prospects of South Africa's future finance minister

At another time in South Africa's history the appointment of Mr Christo Liebenberg as finance minister would probably have been greeted with approval and relief. He is a respected banker with strong private-sector credentials, a sound understanding of the economy, and a tough, conservative attitude to fiscal discipline: all ample qualifications for the job.

Unfortunately for Mr Liebenberg, credentials are not enough. Although perhaps the worst that can be said of him is that he is not Mr Derek Keys, the widely admired incumbent who on Tuesday announced his decision to step down in October, it is at present almost the only thing being said of him in the Johannesburg business community.

So profound has been the influence of Mr Keys during his two years at South Africa's economic tiller, and so deep the dismay at his departure, that relatively little attention has so far been focused on Mr Liebenberg and what he is likely to do with the job.

None the less, as replacements go, Mr Liebenberg is among the most credible. He retired in February as chief executive of Nedcor, South Africa's fourth largest banking and financial services group, where he had built a solid reputation as a dedicated and hard-working executive.

Born in 1924 in the small town of Touwsrivier in the Western Cape, he was educated at Worcester Boys' High School, where he matriculated in 1951. He started work in the mail room of a Nedbank branch a year later and worked his way up the ranks while moving around the country with Nebank and taking a short stint with Morgan Guaranty in New York. En route, he picked up qualifications from the Institute of Bankers, Insead and Harvard.

Under his leadership, Nedcor became increasingly involved in social policy. The Perm, its mortgage arm, is the biggest provider in the black home loan market, and his appointment has met with the approval of both President Nelson Mandela's African National Congress and Mr F W de Klerk's National party.

With no previous political experience, it is business credentials rather than political skills that Mr Liebenberg will be expected to bring to his new post.

"He's a very good backroom man," says one businessman who has worked with him. "He understands the issues, works through them carefully and delivers the goods." Another banker agrees: "Liebenberg's a journeyman executive. He's capable and will work hard at the job."

Affable and good-humoured, Mr Liebenberg is seen as unlikely to diverge much from the cautious fiscal policy framework set out by Mr Keys over the past two years. But he is both less charismatic and less cerebral than the ebullient Mr Keys, and will find it harder to win people over to his point of view.

He also has a much lower international profile than his predecessor, which may be a handicap in dealings with the global banking community. "He's not as persuasive or influential as Keys and will probably have difficulties in the cut-and-thrust of politics," says another businessman.

As a businessman Mr Liebenberg was regarded as an opponent of the maintenance of South Africa's two-tier currency and exchange controls, but is seen as a strong ally of Mr Chris Stals, the Reserve Bank governor, who is known to be reluctant to alter the present system until economic fundamentals improve. As a result, most observers expect little alteration to existing policy in the immediate future.

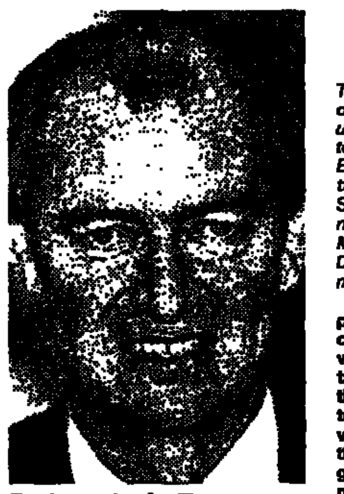
One probable result of Mr Liebenberg's appointment will be a shift of influence within the government's economic policy team. Whereas Mr Keys was the dominant figure in the troika he made up along with the ANC's Mr Alec Erwin, his deputy, and Mr Jay Naidoo, minister without portfolio, the new arrangement will probably be more of a gathering of equals.

While Mr Keys has made Mr Liebenberg's job easier by giving his successor an economy in much better shape than the one he inherited, he has made it much harder by having set such a capable example.

"Keys was so good at the job, many people seemed to feel he could walk on water if he had to," said one grudging admirer. "Mr Liebenberg, however, will have to learn to swim."

Christo Liebenberg: worked his way up the ranks *Picture: Reuter*

ECONOMIC POLICY RESTATED IN WAKE OF KEYS' DEPARTURE



Erwin: praise for Keys

The following is the edited text of an open letter from Mr Alec Erwin, deputy finance minister, to be published today by the Johannesburg-based Business Day newspaper. It sets out the economic policy position of South Africa's government of national unity under President Nelson Mandela following the decision of Mr Derek Keys to step down as finance minister.

'Mr Derek Keys has the full support of the president, his cabinet colleagues and those who work with him in the decision he has taken. He was prepared to enter the government of national unity to help it on its way. There can be very little doubt that he has done this magnificently. He will be in government for a few more vital months as we draft the white paper on the Reconstruction and Development Programme (RDP), work on the 1995-96 budget, prepare to enter international markets and set in motion the wide-ranging work programme of the new government. We will benefit from his surgical insights, knowledge and deep understanding...

'Speaking from the ranks of the ANC there is no doubt a sense of disappointment that such a capable minister needs to withdraw. But President Mandela has also set a humane precedent that even in these historic times the individual lives of leaders are deserving of respect...

'What is remarkable in our circumstances is how quickly a common strategy on the key socio-economic area has emerged... This rapid progress has been possible because an elegant and fiscally and administratively sound mechanism was developed to implement the RDP. This arose out of an important cross-fertilisation of ideas in which Mr Keys provided catalytic insights and understanding. A clear strategy is emerging... broadly supported by all parties in the national assembly.

'The essential features of this strategy are:

- An overall programme that addresses basic needs, human resources, viable economic growth and democraticisation of society.
- The mobilisation of resources in all areas, not only in government.
- ...reordering expenditure priorities of government to facilitate implementation, rather than an increase in the level of government expenditure.
- Rising inflation and balance of payments bottlenecks would destroy the RDP, hence fiscal and monetary discipline are integral to the RDP. They are not just expedients to encourage people to lend us money...

'Three things flow from this. First, the RDP Fund acts as an incentive to effect savings in government expenditure that are then applied to immediate needs... It focuses on organising delivery efficiently rather than throwing money at problems.

'Second, we are not going on a borrowing spree to fund... the RDP. Our borrowing strategy will focus on containment of the deficit, lowering costs of borrowing, establishing a favourable strategic position in international markets and developing links between finance, technology, expertise and markets.

'Third, Jay Naidoo, minister without portfolio with responsibility for the RDP, will be working to co-ordinate and channel a wide range of resources in the private sector, parastatals and non-governmental organisations towards the RDP.

'The strategy and mechanism are coherent, bold and touched with the Keys magic. They are fully supported by the government of national unity. Markets understandably respond to events but countries reshape their destiny by determination and the combined efforts of their people. We have started well and will continue on this path.'

Human rights workers in peril, says Amnesty

Human rights workers are falling victim to the kind of torture and ill-treatment they are trying to prevent, the human rights group Amnesty International says today, in its annual report for 1993, **Reuter reports from London.**

Police beatings, arrests and executions without trial and mass killings have been reported, despite a climate that increasingly highlights the importance of human rights, the report says.

"Human rights defenders often became the first victims of governments trying to build a good human rights image abroad and fearful of the damage human rights activists can do to that image."

The report, covering 151 countries, found prisoners of conscience held in 63 countries. Some 100,000 political prisoners were held without charge in 53, 112 governments tortured or ill-treated prisoners, and political killings by the state took place in 61 nations. Some 3,000 people were executed in 32 countries last year.

China bans child employment

By Tony Walker in Beijing

China yesterday published a labour law aimed at protecting workers' rights, including the outlawing of the employment of children under 16. The law, in effect next January 1, appeared aimed partly at answering international criticism of China's employment practices, attacked by human rights groups.

Chinese workers were promised an eight-hour working day and a minimum wage, but these are difficult to enforce, given widely differing work practices across the country.

The new law, which lays down penalties for mistreatment of workers, follows criticism of exploitation by foreign employers. China's press has highlighted workers' complaints about harsh conditions imposed by foreign businessmen.

The labour law, published in the People's Daily, reinforced regulations passed earlier this year specifying an eight-hour day and maximum 44-hour week.

Workers are now guaranteed one day off a week. Women are not required to work beyond their seventh month of pregnancy and are entitled to 90 days' maternity leave. They are also relieved from working in hardship locations such as mines.

Employers must negotiate contracts with employees that lay down conditions of work, including pay and type of work to be done. Termination arrangements should be specified. The law calls for the setting-up of disputes committees in work places, to include employers and workers.

Nancy Dunne adds from Washington: The Clinton administration was expected yesterday to greet the reforms with some enthusiasm. With France, it has linked labour rights to trade. The reforms will help win US support for China's World Trade Organisation candidacy.

Australia's opposition leader shown to be no easy game for Keating

Alexander Downer is questioned by **Nikki Tait** on policies he wants to pursue

When Mr Alexander Downer was elected leader of Australia's coalition opposition in May, commentators wondered if Mr Paul Keating would eat him alive.

After all, Australia's prime minister is reknowned for his verbal sniping and relentless political assault. By contrast, the 42-year-old Mr Downer was unfamiliar figure outside Canberra. If a popular impression existed it was of an establishment scion, who came from one of South Australia's blue-blooded families and was steeped in Liberal party tradition. His father was immigration minister in the conservative Menzies government of the late 1950s; his grandfather, Sir John William Downer, was premier of South Australia.

But, a month and a half on, perceptions are changing fast. Mr Downer has proved adept at parrying personalised attacks which are the hallmark of Australian politics, and is proving hard to needle.

When Mr Keating raised the "class spectre" by attacking Mr Downer's membership of the "men-only" Adelaide Club, for example, the opposition leader pointed to the prime minister's own fondness for grand living (French Empire clocks, Sydney harbour views). When it was disclosed that Mrs Nicky Downer, Mr Downer's British-born wife, had never sought Australian citizenship, the opposition leader talked of women's rights.

He has given his party's standing in the opinion polls a boost. Even Mr Bob Hawke, who unwillingly passed the prime minister's mantle to Mr Keating in 1991, reportedly told patrons of Canberra's casino last month Mr Downer would be Australia's next leader.

But a bigger, and more serious, question still looms. Can Mr Downer can find policies which will distinguish the opposition from the government and yet woo Australia's change-resistant electorate? After all, the Labor party has used a decade of power to push Australia down a measured economic reform path, neatly cornering much of the middle ground.

In an interview, the speed with which Mr Downer bites on this question suggests that he appreciates its sensitivity. "Ah. That's not difficult at all," he declares, arms stretched along a sofa in a pose of self-confident ease. "The Labor party is equivocal about business, equivocal about investment, and equivocal about industrial relations and micro-economic reform.

"I think in areas like tax, improving the operations of tax system, improving how our labour market works, our credentials are entirely different from Labor's. They are simply incapable of reforming the labour market in a way that will improve productivity in Australia and bring it up to international standards, because of their umbilical link with the Actu (Australian Council of Trade Unions). It's something we can do much more easily."

This may sound simplistic, but it is also astute. Mr Downer has picked on business's two most frequently expressed complaints. Many industrialists would agree with the opposition leader when he goes on to describe Australia's labour market – a large part of which still depends on a centralised system of "awards" and arbitration – as "out of its time zone".

Meanwhile, the government's own industrial relations reform legislation, passed late last year, has been unpopular, with its measures to encourage decentralised work place bargaining more than offset – in the eyes of industry – by enhanced workers' protections. So what, in more precise terms, is Mr Downer going to do about it?

> A more serious, question looms. Can Mr Downer find policies to distinguish opposition from government and woo Australia's change-resistant electorate?

"In terms of the labour market, what Australia needs is much greater flexibility through enterprise bargaining," he says. "Now there have to be guarantees for workers, so they're not going to suffer declines in their wages, but there has to be a mechanism put in place which facilitates the negotiation of enterprise agreements, which will lead to substantial improvements in productivity."

Pushed a little further, he agrees the first element means some minimum wage guarantees. But he refuses to be drawn on the latter: "How we'll move to enterprise agreements, we'll announce when our policy's announced."

What about tax, then? Mr Downer's predecessor made a bad political miscalculation when he suggested that Australia needed to shift from direct to indirect taxation by introducing a goods and services levy (rather like Europe's Value Added Tax). Unsurprisingly, then, his successor is treading carefully.

"There won't be radical tax reform," says Mr Downer. "There'll be gradual reform of the tax system and that will be phased over some period of time. That does include improving the way our indirect tax system works, but not changing its nature, just improving the way wholesale sales tax works."

He insists that he "wouldn't place new restrictions" on foreign investment and adds: "I certainly support the deregulation of international financial markets, with Australia integrated into those markets. But as an Australian, I'd like to feel that we had a greater capacity than we do have at present to invest in our own businesses – and that will only happen if we can build up household savings."

Could that not hinder the managerial and technological transference which tends to accompany foreign investment, and may be very valuable to Australia? This is an inconvenient complication, and Mr Downer becomes a little dismissive. "Sure – all of those arguments I well understand. I'm just saying that all other things being equal, I'd like to see Australians investing in Australia. It's simply an emotional point."

One point on which Mr Downer does concur with his predecessor is on the need for Australia's Reserve Bank, the central bank, to be truly independent of political influence. "All of us remember Mr Keating, when he was treasurer (finance minister), saying that he had the Reserve Bank in his pocket. It is inappropriate for the Reserve Bank to be in the pocket of the treasurer."

So just suppose the current opinion polls hold good for another two years, and Mr Downer heads to The Lodge, what would he see Australia contributing, in global terms, during in the latter half of the 1990s? For the first time in a lengthy interview, Mr Downer looks a little nonplussed. But he recovers quickly, and makes refers to "building on the Apec process" a regional forum which he would use to develop "non-discriminatory but liberalising trading arrangements" in the Asia-Pacific, playing a useful role in the area's defence.

It is a solid, pragmatic answer – if short on imagination or higher aspirations. It is delivered, moreover, with all the confidence of a third generation politician. Mr Keating may have his work cut out.

NEWS IN BRIEF

India growth set to miss targets

India's industrial growth is likely to register an increase of 4.5 per cent in 1994-95, falling short of the government target of 6 to 7 per cent despite a sharp rise in exports, according to a report yesterday by a Bombay-based research centre, writes **Shiraz Sidhva** in New Delhi. This is still an improvement on last year's figure of 3.5 per cent.

The Centre for Monitoring Indian Economy (CMIE), an independent research organisation, said in its half-year economic outlook that real gross domestic product growth would improve marginally to 4.2 per cent against the government's estimate of 5 per cent. It estimated GDP growth in the year toMarch 1994 as 3.5 per cent compared with the official estimate of 3.8 per cent.

Farm output growth is expected to increase to 3 per cent, compared with last year's 1.8 per cent, because of a good monsoon season. Inflation would be contained at less than 10 per cent from the recent 11 per cent high. Exports are expected to grow 15 per cent this year, down from last year's 18 per cent.

Major to urge debt relief

Mr John Major, the UK prime minister, will press for full implementation of the Trinidad Terms which provide relief of debt owed to western governments by the poorest developing nations when he meets fellow leaders at the Naples economic summit later this week, writes **Peter Norman, Economics Editor.**

UK officials said the prime minister wanted all Group of Seven countries to agree to write off at least 50 per cent of debtor countries' official debts and apply the terms to the whole stock of debt rather than selected maturities under the present workings of the Paris Club of industrialised creditor countries. Mr Major devised the Trinidad Terms in 1990 when chancellor of the Exchequer.

MPs outlaw Khmer Rouge

Cambodia's parliament yesterday overwhelmingly agreed to outlaw the Khmer Rouge guerrillas but the government kept open the door for future peace negotiations with the insurgents, **Agencies report from Phnom Penh.** Fears of a second coup attempt, meanwhile, swept the capital after a plot was put down at the weekend, and key government officials were instructed to stay away from their offices and homes.

Nigerian union leader held

Nigeria's military regime arrested Mr Frank Kokori, leader of the oil workers' union Nupeng, in Lagos yesterday on the third day of the union's strike called to demand the end of military rule and the release of Mr Moshood Abiola, whose victory in last June's presidential election was annulled, writes **Paul Adams** in Lagos. Mr Abiola appeared before a federal high court in Abuja yesterday and was charged with treason.

France deeper in Rwanda morass

Leslie Crawford reports that neutrality is becoming harder to maintain

France's decision to create civilian safe havens in Rwanda has set the stage for another foreign military entanglement in Africa of unknown duration and unpredictable results.

The plan, backed by Mr Boutros Boutros Ghali, UN secretary-general, but not yet endorsed by an increasingly uneasy Security Council, lays France open to charges that its humanitarian intervention was a thinly veiled disguise to prop up the collapsing regime of a former military client.

After the capture this week of the capital Kigali and Butare, Rwanda's second-largest town, by rebel forces of the Rwandan Patriotic Front (RPF), most government soldiers and hundreds of thousands of civilians have taken refuge behind French lines in south-western Rwanda.

It is becoming increasingly difficult for France to maintain the pretence of neutrality. The French have drawn a 10km cordon sanitaire around Gikongoro, the next big town to the west of Butare, which the RPF will not be allowed to cross.

Commandos have taken up position on hilltops around the town, picking out sites for heavy mortars, machine guns and anti-tank missiles. Some 300 Foreign Legionnaires are already dug in to halt a further advance of guerrillas less than 20km away.

The French have not disarmed Rwandan government soldiers at Gikongoro; many can be seen at barricades set up by French marines and paratroops. France's "humanitarian" mission has blurred two issues: the genocide against the Tutsi minority, which French forces arrived too late to prevent, and a civil war which began in 1990.

From the start of Operation Turquoise a fortnight ago, French forces have tried to equate the suffering of the few thousand Tutsis who escaped mass slaughter with the plight of hundreds of thousands of Hutus who have fled the rebel advance. Central to their argument for setting up civilian protection zones is the belief that Hutus would also be slaughtered if the RPF were allowed to overrun government-held territory.

The International Committee of the Red Cross says few incidents of revenge killings have occurred in the two-thirds of the country controlled by the RPF. But in the Hutu refugee camps sprouting around Gikongoro, most people believe reports of blood-curdling rebel atrocities broadcast on government radio stations, but when questioned, no one has witnessed such events.

"The Tutsi have dug wells 60 metres deep to hide the Hutus they have killed," a young Hutu militiaman manning a road block near Gikongoro says. "That is how they have concealed the evidence of their crimes."

Such propaganda played a big role in inciting Hutus to slaughter their Tutsi neighbours in the weeks after President Juvenal Habyarimana's death in an air crash in April. Government radio accused the Tutsi-led RPF of shooting down the president's aircraft.

In a letter to the UN secretary-general, the RPF calls the French protection zones "a safe haven for the authors and perpetrators of the genocide. We have always believed and still maintain that the real motive behind the unilateral French intervention in Rwanda is to prop up the discredited regime [and] preserve a role for these murderers in the future politics of Rwanda," the letter says.

While the Security Council awaits the report of a special UN rapporteur on the genocide of Tutsis in Rwanda, human rights groups are urging France to arrest those individuals responsible for directing the atrocities.

Not only are the French unlikely to do so, they will be hard-pressed to find Hutu leaders acceptable to the RPF to negotiate an end to the conflict. Most moderate Hutu community leaders have been murdered by Hutu extremists.

But some of the most ardent supporters of a negotiated settlement are to be found among the Tutsi survivors, now herded in French-guarded refugee camps in government-held territory. "If the RPF really wants to save Tutsi lives," says a Tutsi priest, "they should bring this war to an end."

Trinidad and Chile 'top list for US links'

By Nancy Dunne in Washington

Chile and Trinidad and Tobago are the countries best prepared to take on free trade and investment agreements with the US, according to a report released yesterday by the Washington-based Institute for International Economics.

Of the countries seeking trade pacts with the US, Chile and Trinidad and Tobago head a list which includes Barbados, Venezuela, Colombia and Bolivia. The US administration has stressed that Chile is at the head of the queue for free trade agreements, although Trinidad and Tobago and Barbados are also considered excellent candidates.

Policymakers have yet to decide whether the trade agreements should be entered on a bilateral basis or through accession to the North America Free Trade Agreement.

The report "strongly" recommends the Nafta route. With bilateral talks, the authors say, there is the risk that Nafta members would feel they were being played off against potential new US partners, it says.

The report, by Mr Gary Hufbauer and Mr Jeffrey Schott, is the IIE's contribution to the current debate in the Clinton administration. Economic integration in the hemisphere is now a goal to which the administration has gradually committed itself; the best means to achieve it are under discussion in the US and between US officials and their Latin American counterparts.

The authors say integration within the Americas will proceed more slowly than it has in Europe and without the transfer of funds – or cohesion – between the rich EU countries and their poorer brethren. As the US debate over Nafta showed, labour and environmental standards will be more contentious than in Europe.

"When income disparities and social conditions between trade partners are great, the trauma of economic integration is bound to be large," the report says. "The economic playing field looks distinctly slanted and, for different reasons, each country feels threatened by the economic standing of its partners."

To measure a country's readiness for free trade, the authors have devised a set of indicators based on price stability, budget discipline, external debt, currency stability, market-oriented policies, reliance on trade taxes, and functioning democracy.

Strong commitment to economic liberalisation policies is preparing many countries for the shock of freer trade. Thus the potential of Argentina, which now stands at only 2.6 on the Hufbauer-Schott scale of 5.0, is considered greater than it seems because "its low scores on price stability and external debt will jump sharply if the reforms are maintained."

Brazil, which is pushing economic integration within South America, scores only 2.3. Chile and Trinidad and Tobago are put at 4.4. Just before it joined Nafta, Mexico was at 3.9.

In preparation for the Summit of the Americas, to be held in Miami in December, the US administration has been consulting its Latin partners and eyeing various roads to regional integration. All of such partners would gain by freer trade and investment ties throughout the hemisphere, says the report. US exports could gain by about $36bn (£23bn) in 2002; its imports would be about $28bn.

"Our emphasis will be on 'building blocks' of various types, in advance of free trade agreements," said Mr Ron Brown, US commerce secretary, recently in Buenos Aires. "These can include intellectual property agreements, bilateral investment treaties, understanding on disciplines that we recognise are broadly supported by the private sector... The Nafta's disciplines will serve as a model in many respects."

Reynolds in CIS aluminium project

By Kenneth Gooding, Mining Correspondent

Reynolds Metals, the second-largest US aluminium group, has signed a technology transfer and technical assistance agreement that is to help convert a substantial portion of an aluminium defence and aerospace plant in the former Soviet Union into a manufacturer of aluminium sheet for beverage cans.

Mr Randy Reynolds, vice-chairman of Reynolds, suggested the agreement was the first step towards the launch of aluminium beverage cans in Russia, which would mean the Commonwealth of Independent States consuming more of the aluminium it produces.

"By sharing our technology, we expect Sameco [Samara Metallurgical Company] to become the first to produce can stock in the CIS," Mr Reynolds said.

The former Soviet aluminium industry was set up primarily to supply material for defence and aerospace applications. The collapse of the Soviet Union left industry with huge surplus capacity. It has turned to exporting on a much larger scale.

Exports to the west surged from 250,000 tonnes in 1989 to more than 2m tonnes last year, which forced down world prices to their lowest level in real terms.

The Samara-based company, to which Reynolds will provide assistance, has shut down most of its plant, which once produced hard-alloy aluminium sheet, plate, forgings and extrusions mainly for the defence and aerospace industries. Sameco hopes to begin producing can stock by the end of 1995.

Reynolds, the world's third-largest manufacturer of aluminium beverage cans, has joint ventures for aluminium beverage cans in Argentina, Brazil, Chile, Saudi Arabia and Venezuela. Reynolds and its affiliates have 20 plants world-wide with the capacity to produce 21bn cans a year.

Gatt joins battle for right to protect

Frances Williams on differences with Wipo over intellectual property jurisdiction

It is no trade secret that relations between the General Agreement on Tariffs and Trade and its near-neighbour in Geneva, the World Intellectual Property Organisation, have been strained in recent years.

Wipo, a UN agency which administers 16 international intellectual property treaties, lost with bad grace a crucial turf battle to Gatt when intellectual property protection went on the agenda of the Uruguay Round of global trade talks in 1986.

After years struggling unsuccessfully to negotiate new and revised treaties for the protection of patents, copyrights and trademarks, Wipo watched Gatt members put together, in record time, the biggest and most comprehensive intellectual property agreement this century.

The Gatt accord on trade-related aspects of intellectual property (Trips), which will operate under the aegis of the new World Trade Organisation from next year, plugs some gaping holes in the existing system.

It lays down minimum standards of protection and enforcement for all types of intellectual property – for example, unlike Wipo's 1883 Paris Convention on patents, it defines what is patentable and sets a minimum patent term of 20 years.

The rules will be binding on all WTO members, though developing countries have been given a five-year transition period (11 years for the poorest) to adopt new legislation. Thus India, the most notable absentee from the Paris Convention, will have to provide basic patent protection.

Most important, the accord's obligations will be enforced through the WTO's revamped disputes settlement mechanism, which will require offending countries to mend their ways or face retaliation from trading partners. Wipo has no enforcement powers.

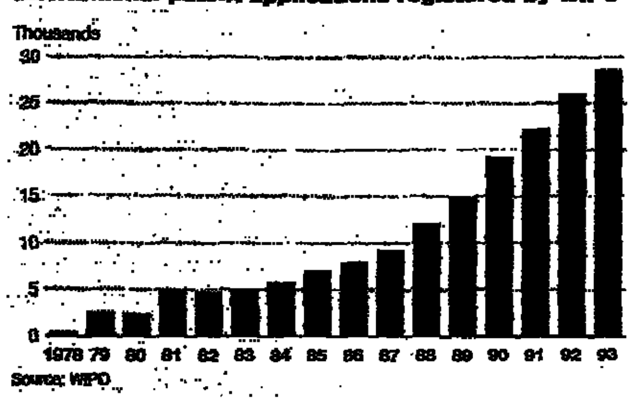
Trade experts are predicting a rush of disputes once the new system comes into force, as governments test the ability of the Trips agreement to resolve current disagreements. It also provides the first opportunity to test divergent national interpretations of the Paris Convention and the equally venerable 1886 Berne Convention on copyright, whose substantive provisions are incorporated in the WTO accord.

With negotiation and interpretation of international rules on intellectual property now apparently annexed by the WTO, Wipo's influence is being questioned.

Wipo's main activity, which occupies two-thirds of its 450 staff, is in any case not negotiation but registration of patents, trademarks, industrial designs and appellations of origin. Registration earns Wipo almost SFr90m (£43m) a year, three-quarters of its SFr115m 1994 budget income. And business is booming.

Nearly 29,000 international patent applications were filed in 1993 under the Patent Co-operation Treaty which enables inventors to apply for registration in several countries with a single application. This is five times the number a decade ago, while the average number of designated countries per application has jumped from 10 to 31.

International patent applications registered by WIPO



Source: WIPO

The UN agency's other important focus is giving advice to developing countries on such matters as running patent offices or drafting intellectual property legislation.

Wipo's technical co-operation and registration activities are, if anything, likely to receive a fillip from the Trips accord by encouraging developing countries to upgrade intellectual property protection.

In a separate move, Wipo has established a mediation and arbitration centre to handle disputes between private parties which is due to begin operations this October.

Nor is it a foregone conclusion that Wipo's negotiating role has ended. Washington railroaded intellectual property rights on to the Uruguay Round agenda because developing countries were blocking negotiations in Wipo. They eventually accepted a Trips agreement in return for benefits in other areas of the round, including textiles and farm trade.

But, with no further all-embracing trade round in prospect, trade-offs between sectors may be less important than in the past. Developing countries have mostly come round to the benefits of intellectual property protection and within the WTO, the initial emphasis is expected to be on implementing the new agreement, which is virgin trade territory. Though the Trips accord provides for a review after five years, trade officials do not envisage big changes early on.

This leaves the way clear for Wipo, which already has several negotiating projects on the stocks. These include two new treaties to supplement the Paris Convention, a Patent Law Treaty and a Trademark Law Treaty which aim to harmonise national norms. Wipo is also considering a protocol to the Berne Convention to deal with new media and information technologies.

Wipo officials admit that these are proving difficult negotiations. Talks on the Patent Law Treaty, which have been going on for 10 years, are stalled because Washington refuses to drop its first-to-invent filing system (the rest of the world uses a first-to-file system). But "no one is saying the issues should go to Gatt," notes Mr François Curchod, Wipo's deputy director general.

The future of a draft treaty on dispute settlement (though without any sanctions provisions) will be discussed by Wipo's 147-member general assembly in September in the light of the Uruguay Round deal. Wipo officials point out that, outside those specific provisions of the Paris and Berne Conventions embraced by the Trips accord, Wipo agreements are not enforceable by the WTO.

Still undecided is what role Wipo should have in the WTO's disputes procedure. Gatt members have so far shown a strong disinclination to boost substantially the number of staff working on Trips from the present one and a half. Paradoxically, to make the new procedure work, the WTO may need all the outside help it can get.

Ford in Poland car talks

Ford and the Polish government have begun negotiations on a project to assemble the Ford Escort car from kits for the Polish and bordering markets, John Griffiths reports.

This could involve the assembly of about 10,000 cars a year and has been put to Warsaw as a substitute for a $50m (£32m) project to produce car interior trim in Poland. Ford has abandoned that.

The negotiations, understood to have been going on for some months, are still some way from conclusion, according to indications by Ford of Europe executives this week.

Ford announced in the middle of last year its intention to set up a Polish greenfield operation to make seat covers for export to its own car plants and other European vehicle producers.

Ford then said the plant, at Plonsk, some 60 miles north-west of Warsaw, would come on stream late this year and would employ up to 1,000 people.

Since then, however, Ford embarked on a major restructuring under its new chairman, Mr Alex Trotman. The Plonsk venture became a casualty of that. Ford no longer regards the manufacture of car interior trim as a core business and is placing it with outside suppliers.

Even so, Plonsk is believed not to have been ruled out as a possible location for the car assembly project.

That would be the third manufacturing venture undertaken by Ford in central Europe since mid-1992.

Yen's rise lifts imports of vehicles to Japan

The yen's ability to defy gravity has been a boon to vehicle imports to Japan, which rose by 40.3 per cent to a record 137,966 units in the first half of this year, writes William Dawkins in Tokyo.

Sales of imported vehicles climbed by 42.9 per cent last month from a year earlier, as Japanese consumers took advantage of the falling yen price of foreign cars.

June represented the eighth monthly rise in a row, according to the Japan Automobile Importers' Association.

Foreign car makers have not been the only winners. The overseas plants of Japanese producers have also benefited. Imports of foreign-made Japanese vehicles nearly doubled last month to just under 9,000 (30 per cent of all imports).

Within the total, imports of passenger cars rose by 32.9 per cent in June, with Ford up 175 per cent, Chrysler up 104 per cent, and Nissan's UK plant showing a 95 per cent increase in sales to Japan.

BBC urged to expand role

By Raymond Snoddy

The British government yesterday urged the BBC to expand its commercial role in the UK and around the world and to transform itself into an international multi-media organisation.

The encouragement for the BBC to become more of an international broadcaster with the help of private partnerships and private capital came in a white paper that also endorsed its existing role as the UK's main public service broadcaster.

The government policy document argues that the BBC:

- can continue all its existing broadcasting services including two national television channels and five national radio services including Radio *One*;
- should have a new 10-year Royal Charter running from January 1 1997; and
- should be funded by a universal licence fee at least until the year 2001 followed by a review in the light of technical developments then. A review will decide whether the post-1996 licence fee will be linked *to the retail price index – as it* is now – or set at RPI minus a percentage figure.

The BBC welcomed the broad thrust of the white paper and described it as a vote of confidence.

Mr Peter Brooke, national heritage secretary, said yesterday: "*What this* [*white paper*] is about from our point of view is evolution not revolution: a two-pronged approach that maintains the BBC's public services with a sharp focus and developing its commercial activities competing worldwide."

To help the BBC develop more commercial activities in the hope of supplementing the licence fee, the government plans to allow the Independent Television Commission and the Radio Authority, the regulator of commercial radio services, to licence commercial services owned or partly owned by the BBC.

At present, this is forbidden by the 1990 Broadcasting Act. The implication is that the BBC would be able to get involved in satellite and possibly *other commercial broad*casting services in the UK although Mr Brooke declined to be specific.

The government, which is insisting on a complete separation of the BBC's public service and commercial activities, also emphasised that the BBC governors would ensure that that the aims of BBC Worldwide,the new international division *remained consistent with* the corporation's objectives.

Mr Leslie Hill, chairman of the ITV Association, welcomed the retention of the licence fee *but said the BBC should not* use programmes funded by licence fees in risk ventures in the UK. He said the BBC should sell its programmes to – and join in the acquisition of rights and programmes with – other UK broadcasters in "a fair and *open* manner".

The main uncertainty now facing the BBC is over its transmitter system. The government and the BBC are to explore options, including full or partial privatisation designed to inject private *finance into the corporation's* transmission services.

The move is being seen as a way of helping to finance an early entry by the BBC into digital terrestrial television, technology that could enable a large number of new television channels. The BBC is looking at the possibility of launching the first digital channels as early *as 1997 if they* can be funded.

Although the government endorsed the basic structure and purpose of the BBC, Mr Brooke said it would be "wrong to think that we are engaged in business as usual".

MPs seek end to tobacco sponsorship of sport on TV

The cross-party *Commons* National Heritage Committee yesterday called for the phasing out of all broadcasting of events sponsored by tobacco *companies* on terrestrial television, Raymond Snoddy writes.

Mr Gerald *Kaufman*, the committee chairman, said it was "quite extraordinary" that the BBC continued to broadcast events sponsored by tobacco companies. The Corporation has said it will not enter into any new contracts for *new events with tobacco* sponsors.

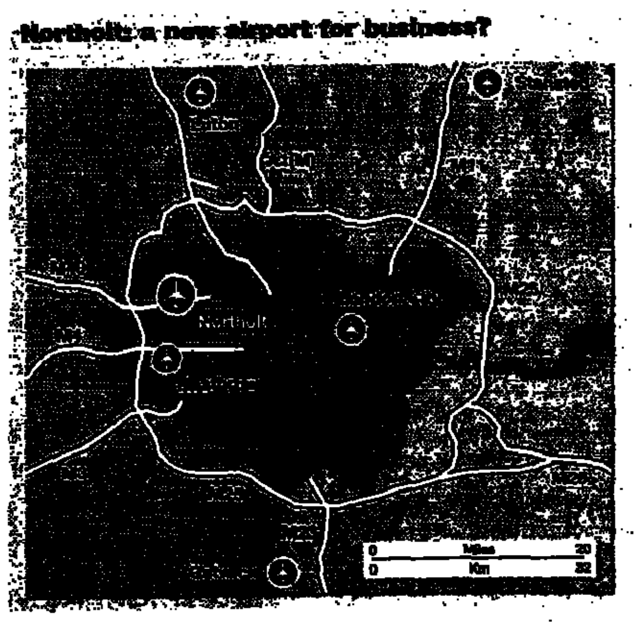
The Committee recom*mended that no further* UK sporting events sponsored by tobacco companies be broadcast by any terrestrial channel once contracts run out.

It called on the government to hold discussions at European and international levels *on satellite television* coverage to "seek to end indirect advertising of tobacco products through programme or event sponsorship on satellite TV."

The committee also sought to give greater protection to the televising of events such *as the FA Cup Final*, the Grand National horse race and the Olympics.

Push to give London new business airport

By Paul Betts,
Aerospace Correspondent



Northolt: a new airport for business?

The British government is stepping up its efforts to allow business aircraft to use the Royal Air Force airfield of Northolt, west London, to relieve increasing pressures on business aviation at Heathrow.

The *Ministry* of Transport and the Ministry of Defence yesterday issued a consultation paper seeking the views of industry and business aircraft users on the potential for developing a civil enclave dedicated to small business aircraft *within* the RAF *airfield on* the edge of the capital.

The move was signalled in May's competitiveness policy paper published by the government in view of increasing pressure on facilities for general and business aviation in south-east England as a whole.

Lord MacKay of Ardbrecknish, the government aviation *minister, said yesterday*: "Business aviation is not just a rich man's plaything."

"Many serious companies are dependent on small aircraft and it is important for UK PLC to get in and out of London with ease," he said.

One attraction of Northolt is the airfield's proximity to *Heathrow – many corporate* jet users want to connect with long distance scheduled services from Heathrow, the world's biggest international airport. Shell, the integrated oil group which operates its own corporate jet fleet, has *welcomed* the government's initiative.

Northolt handles flights by the Royal family, VIP and military traffic. It already handles around 4000 movements by civil aircraft each year within a limit of 7000 civil movements (*either a take-off or landing*).

The government wants to see this spare capacity of around 3000 civil movement used at a time when business aviation is increasingly squeezed at nearby Heathrow.

Following the consultation process, which is expected to be completed by the second half of next month, the MOD *will prepare tender documents* inviting bids for development and *operation* of the proposed civil enclave at the *RAF* airfield.

The consultation document said the successful bid would be the one offering the best package to accommodate MOD restrictions and provide a service operating efficiently alongside the airfield's military operations.

Security will be a significant issue in view *of the* use *of the* airport by Royal and VIP flights. There are proposals to transfer the Queen's flight from RAF Benson, in Oxfordshire, to Northolt.

Lord MacKay said flight operations would remain the *responsibility* of the MOD, while ground operations, including aircraft and passenger handling, would be the responsibility of the operator of the proposed new business aircraft centre.

The ministry would continue to levy landing and navigation fees as well as earn additional revenue from the new centre.

Although the government is proposing no changes in the current limit on civil aircraft *movements* at the airport, *its* plan to develop business aviation at Northolt is expected to spark fierce local opposition on environmental grounds.

The London Borough of Hillingdon, where the airfield is based, has already proposed that most of the airfield site should be designated as a Green Belt area. The MOD formally *objected to this* at a public inquiry earlier this year. The inspector is expected to publish his findings later this year or early next year.

Water bills may rise to meet clean-up costs

By Deborah Hargreaves

British householders could face higher water bills next year as a way of meeting additional environmental obligations handed to the water companies yesterday by Mr John Gummer, environment secretary.

The government added another £522m to the bill water companies must pay for treating sewage and cleaning up rivers over the next five years. Mr Gummer directed the industry regulator, Mr Ian Byatt, to take additional funding into account when fixing *limits for domestic bills*.

The new money is equal to about £6 per year for each of Britain's 18m households, but bills will rise more in some areas than in others.

Mr Byatt is in the final stages of setting price formulas for Britain's 31 water companies which are due to be announced on July 28. They will already take into account a £14bn-15bn clean-up of waste *water planned by the industry* up to 2000.

Mr Gummer's decision to add another £500m environmental spending to companies' obligations will inevitably lead to the charge that householders will end up footing the bill. Water companies have increased their charges to *households by 67 per cent since* privatisation in 1989.

"Consumers have been asked to pay a very large part of the burden of investment and general upkeep of the system since privatisation," said an official at the National Consumers' Council. "But there is no reason why the cost of this environmental spending should be passed on."

The consumers' council says *the burden placed on* householders is "unfair" and that companies should turn to other sources of finance such as the equity market for investment capital. The council is due to publish its own report criticising water price increases on *Monday*.

Companies hit hardest by the additional environmental spending will be North West Water which will be required *to pay £130m for cleaning* up the Mersey basin in north west England and Severn Trent Water which will face an increase of £194m.

Dublin 'seeking close links'

By Tim Coone

Mr Dick Spring, the Irish foreign minister, said yesterday that Ireland is seeking "the closest possible links between a Northern Ireland administration and the Irish *government*", *but that this* would not amount to joint administration with the British government.

Speaking in Dublin to businessmen from both sides of the border, his comments were made in response to recent criticisms from Unionists in N Ireland that the current bilateral talks between the two gov*ernments are aimed at estab*lishing a joint authority. Mr Spring said that joint authority "is not on the Irish government's agenda".

Deeper economic cooperation is however, and he said that it would be "realistic" to increase current cross-border trade of I£1.3bn (£1.28bn) a year to I£3bn.

Despite deep political divisions "there are very few who will contest the view that Ireland makes sense as a single economic area" he said. The Irish government wants "strong, meaningful and dynamic" cross-border structures to promote this goal and the two governments are looking at the prospects for cooperation in transport, health, "and other areas".

The continuing violence imposes a "huge burden" on both the UK and Irish economies however, and impedes progress in economic cooperation, he said.

It is imperative "that those who engage in violence on both sides should cease to inflict this intolerable burden on their fellow citizens".

Eurotunnel challenge on duty-free

By Charles Batchelor,
Transport Correspondent

Eurotunnel, which runs trains through the Channel tunnel, is to challenge a European Union decision allowing ferry companies and airlines to continue *making duty-free sales until* 1999.

The company intends to seek leave within the next few days to apply for a judicial review in the autumn of the European decision. It calculates that duty-free sales are worth £125m a year to its rivals and believes the abolition of the duty-free concession would *boost its own turnover by* about £170m up to 1999.

"This is a subsidy to the ferries and the airlines and we see it as discrimination against us," a Eurotunnel spokeswoman said.

Eurotunnel is not allowed to sell duty-free goods on its trains through the Channel tunnel but it will have *duty-shops at its terminals in* Folkestone and Calais. These will however require travellers to make a detour.

The company originally planned its services on the assumption that duty-free sales would be abolished when the single European market was created in January 1993. But the UK government won a six-year reprieve.

It would be very difficult for Eurotunnel to provide a duty-free sales service on its car passenger shuttles because of a lack of room and the short time which they take to travel between terminals. Stena Sealink, one of the main cross-Channel ferry companies said: "*Duty-free purchases* are now an integral part of the whole holiday experience."

VAT scheme 'won't succeed'

Tax chiefs move to stop EU car scam

By Andrew Jack and Robert Rice

The UK government clamped down firmly yesterday on a tortuous tax avoidance device which could cost hundreds of millions of pounds a year in value added tax refunds on company cars.

HM Customs & Excise took the unusual step of circulating a warning to businesses and advisers that it would work with foreign tax authorities to prevent the repayment of VAT on cars leased from other EU member states.

In a business briefing note, it said that a "so-called tax planning scheme . . . being promoted by some well known firms of tax advisers . . . does not succeed".

The statement is an aggressive attempt to nip in the bud an attempt to exploit different tax laws across Europe, which it argues distort competition.

In the UK, only a few industries such as cab companies and motor traders can claim back VAT on the purchase of cars. The rest pay VAT estimated at £1.6bn in 1994. In other countries such as Germany the VAT is refundable.

Price Waterhouse and several other large accountancy firms have spoken at conferences and held discussions with clients recommending they take long-term leases on cars with companies in countries where VAT on car sales can be reclaimed.

To gain refunds, the cars must be leased by a non-UK company to a UK client, imported into the country and ultimately re-exported when the lease expires.

"We are concerned that one or two firms are trying to drum up business," Customs said yesterday. "The imagination of accountants is exceedingly fertile. Our legal advice is that this won't work. This is a friendly note to companies to reconsider their advice to save time, energy and money."

Mr Nigel Cockburn, a tax partner with Price Waterhouse, said: "I don't see this as tax avoidance. All it is doing is taking advantage of the laws in different countries which is perfectly legal. Presumably that's what the single European market is about."

Several UK clearing banks have already lodged appeals with the VAT Tribunal claiming that Customs' ability to forbid refunds of VAT on company cars is incompatible with EU law. They have complained to the European Commission that the UK has failed properly to implement the European Sixth VAT Directive, which would have permitted refunds unless a specific exemption had been granted. The Commission is still waiting for an official response from the UK.

● The prospect of a 2m-plus new-car market this year, for the first time since 1990, has been raised by an unexpectedly sharp upsurge in new-car registrations last month, writes John Griffiths.

Statistics from the Society of Motor Manufacturers and Traders showed an 18.3 per cent rise in registrations last month to 134,748. This compared with the 113,919 recorded in the corresponding month a year ago.

The June surge brought total registrations for the year's first half to 956,263 – a 13.7 per cent rise on the 839,035 in the first half of last year.

The SMMT is continuing to be cautious in its forecasts, suggesting the total market "might" top 1.9m this year. It is also predicting about 445,000 registrations in August, by far the biggest sales month because of the introduction of the yearly registration prefix.

However, this represents an increase of only about 1 per cent on last year's August sales of 440,206, whereas the market has increased by double figures in percentage terms every month of this year except April, when tax increases were introduced.

The SMMT said would-be buyers could benefit from "some of the best showroom deals ever seen as manufacturers offer an unprecedented number and variety of promotional schemes" linked to the introduction of this year's M prefix.

Blair emphasises pro-European credentials

By Philip Stephens, Political Editor

Mr Tony Blair, the front-runner for the leadership of Britain's main opposition Labour party, yesterday cast himself in the role of the discriminate pro-European by calling for a different but positive vision of the European Union's future.

In his first detailed statement on an issue likely to dominate politics in the run up to the next general election, Mr Blair said that the economic and political case for enhanced European cooperation had become stronger not weaker.

His comments came as Labour's shadow cabinet decided not to oppose or seek to amend legislation due next week to provide for the entry into the Union of Sweden, Austria, Finland and Norway. Party officials said there was no question of the party joining with Tory Eurosceptics in any attempt to wreck the bill.

Blair: rejected "false choice"

In a speech to the Foreign Press Association Mr Blair flatly rejected the "false choice between a sort of bureaucratic federalism and a retreat into isolation".

Accusing the government of a "minority mentality" which had left Britain participating in Europe without influence, he said the country needed a new self-confidence about its role.

The alternative to isolationism was not a headlong-rush into a pan-European state but "a movement towards greater European co-operation, measured by what is practically sensible and publicly acceptable but where public opinion is led as well as followed".

Mr Blair acknowledged the pre-occupations of the Maastricht treaty had been overtaken by events – above all by the collapse of Communism in Eastern Europe and the resultant prospect of a Union of 20 or more states rather than 12 or 16.

Britain should treat the intergovernmental conference in 1996 as an opportunity to move beyond Maastricht and "shape and re-state the basic economic, social and strategic purposes of Europe".

But political and economic forces continued to point in the direction of a closer not looser association: "The change in Europe as a result of the liberation of Eastern Europe may alter the shape of European cooperation but it does not alter the reason for it".

Turning to the party's position on a single European currency, Mr Blair said that Britain must keep its options open to avoid the risk of exclusion from economic and monetary union.

The timetable should be driven by economics and not by an artificial political timetable. While exclusion would damage Britain's long-term economic strength, the price of joining without genuine economic convergence might be too high.

Britain should seek also to widen the focus of the economic policy debate in the Union to other key issues like employment, infrastructure, technology and education and training.

The challenges to Europe's economic future had to be faced collectively as well as individually, he said.

Britain in brief

FA reduces Tottenham penalty

Tottenham Hotspur football club was yesterday fined a record £1.5m by the Football Association for irregular payments to players.

But the famous North London club had their original 12-point deduction from next season's record reduced to six by the FA appeal board near St Albans.

Deprived of 12 points the club, which has won all the major domestic honours in English football, would have faced relegation next season to the First Division.

The share price of Tottenham Hotspur football club rose 5p to 94p.

The hearing, which lasted almost four hours, also ruled that the club's ban from the FA Cup for season 1994/5 will stand.

Tottenham were originally hit with a £600,000 fine, a 12 point deduction, plus the ban from the Cup when the sentence was handed out three weeks ago.

But after the decision of the Appeals Board was announced, an FA spokesman said: "The Board accept there has been a considerable degree of co-operation and voluntary disclosure in relation to these matters, and take that into account."

Mr Alan Sugar, the club's chairman, gave an assurance that the offences would not be repeated.

Crown estates set for upturn

Income from the Crown Estate, which owns large tracts of London's west end, including all of Regent Street, will rise sharply over the next decade as many of its long running fixed-rent leases expire .

The Estate, which yesterday announced a 6 per cent rise in net rents, said prospects for income growth in Regent Street, one of the world's premier shopping streets, were excellent.

Mr Christopher Howes, the Estates chief executive, said: "Ground leases on about a quarter of the 123 properties owned in Regent Street fall due between now and 2005." The organisation's roll dates back to 1760, when King George III handed over profits from the crown's estates to parliament in exchange for the provision of the so-called Civil List. Under these arrangements the Queen will receive £7.9m this year.

Welsh miners petition EU

Welsh private coalmine owners are threatening to complain to the EU Commission in Brussels over the proposed terms for the sale of British Coal.

They are worried that the government intends to sell British Coal cheaply, and that this will amount to an effective subsidy for new competitors in the coal mining business. Mr Rhys Jeffrey, chairman of the South Wales Small Mines Association, representing 60 owners said his members, who operate 60 pits, calculated that it cost £15 a tonne to gain access to coal. But one-off pit leasing deals by British Coal, such as Betws in south Wales, implied a cost of only £5 a tonne.

Rail offer 'clarified'

Railtrack is to clarify its productivity pay package for signalling staff, and may revise it, the company said yesterday.

It said the move was in response to suggestions from staff who have responded to the company's "hearts and minds" campaign launched last weekend.

Yesterday the signalling staff struck solidly for the fourth consecutive Wednesday.

Further one day strikes are scheduled for the next two Wednesday with the threat of two day a week strikes after 24 July.

A 3,300-year-old piece of sculpture from an Assyrian palace fetched £7.7m at Christie's in London after it was discovered beneath layers of whitewash in the 'tuck'– or sweet – shop of a private school. Sir John Guest, the then owner of Canford Manor, today the home of Canford School in Dorset, was given the sculpture by Sir Henry Layard in return for helping with the cost of transporting items excavated from the palace of Ashurnasirpal II at Nimrud, Iraq, between 1845-51

Recs breach of data code

Some regional electricity companies are breaking the law by using customer databases to promote services other than electricity, the Data Protection Registrar said in a statement with implications for all privatised utilities.

Mr Eric Howe, the registrar, said in his annual report that he believed "a number" of current and planned uses of customer data information by the twelve regional electricity companies in England and Wales to be in contravention of data protection law.

He claimed that under the Electricity and Data Protection Acts it was illegal for the companies either to use their customer mailings as "host" for non-electricity promotions or to pass names and addresses on to commercial third parties. "There may be implications for the activities or proposed activities of other utilities," he added.

Mr Howe intends to write to the electricity companies and to consult the utility regulators on the issue. But he "anticipated" that his successor as registrar, who takes office in September, would issue formal guidance within the next year.

American-style fast food is catching on in a region hungry for western tastes, finds **Kieran Cooke**

Feast your eyes on an Asian opportunity

Roasters: Kenny Rogers and Vincent Tan, head of Malaysia-based Berjaya

Kenny Rogers, the US country and western crooner, rode into Kuala Lumpur recently. He wasn't playing his guitar or singing a tear-jerking song. He was cooking chickens.

Kenny Rogers Roasters boasts of being the fastest-growing fast-food chain in the US, with more than 1,000 restaurants opened or about to start operations across the country. In May the first Roasters store in Asia opened in the Malaysian capital.

The crowds who wait in line in Kuala Lumpur for one of Rogers' chickens, marinaded in a special herb sauce and cooked on a wood-fired rotisserie ("It's wood that makes it good") testify to one of the marketing phenomena of Asia: American-style fast food is catching on as fast as it can be cooked.

The Florida-based Roasters chain was founded three years ago by Rogers and John Y. Brown Junior, a former Kentucky governor. Earlier this year Berjaya, a Malaysia-based conglomerate, bought a 24 per cent stake in Roasters for $40m (£26.3m). Berjaya paid $10m for a 50 per cent stake in the chain's Asia Pacific operations.

"We've only been open a few weeks and already we are selling far more chickens per day – about 1,400 each Saturday and Sunday – than stores in the US," says Syed Ghazali, general manager of Roasters in Kuala Lumpur. "We plan to open eight more stores in Malaysia this year with further openings in Singapore and the Philippines. South Korea and Indonesia will follow after."

It's the same story all over Asia. At one time the sceptics said that Asians would never give up their diet for the blander tastes of American fast food. But the traditional corner coffee shop selling chicken, rice and noodles is disappearing and being replaced by McDonald's, Pizza Hut or Kentucky Fried Chicken.

The taste of the food is only one element in the success story. "Our marketing people tell us that people here love the American way. People come to the stores not only for the food but to enjoy American style and American service," says Syed.

The region's economic success has brought about the rise of an increasingly affluent middle class. A plate of chicken and rice might only cost M$2.50 (95 cents) in Kuala Lumpur. But more and more city dwellers have the money to pay twice or three times as much for a Roasters meal.

Karl Faux runs the south-east Asia operations of Tony Roma's, a Texas-based chain specialising in ribs. The chain's 140-seat restaurant in Singapore serves up to 800 meals per day. "Anything that's American sells well. Business is better than we ever dreamt it would be," he says.

Faux, an Austrian hotelier who manages Tony Roma's regional operations on behalf of Indonesian franchise holders, says a vital ingredient in the attractiveness of US-style fast food is that it caters for the family. "Asians like eating as a family. It's a very important part of the business."

Fast-food chains make some adjustments to local conditions. Kenny Rogers Roasters cost about half as much in Malaysia as in the US. Some chains use local sauces and ingredients. Others insist that all supplies come from the US. Tony Roma's has expanded into Indonesia. It now ships a container of US pork ribs each month into the world's largest Moslem country.

McDonald's opened one of its first outlets in Asia in Singapore in 1979. Now, eight of its 10 best-selling restaurants in the world are in Asia: seven of them are in Hong Kong while the recently opened outlet in Beijing is the company's top performer.

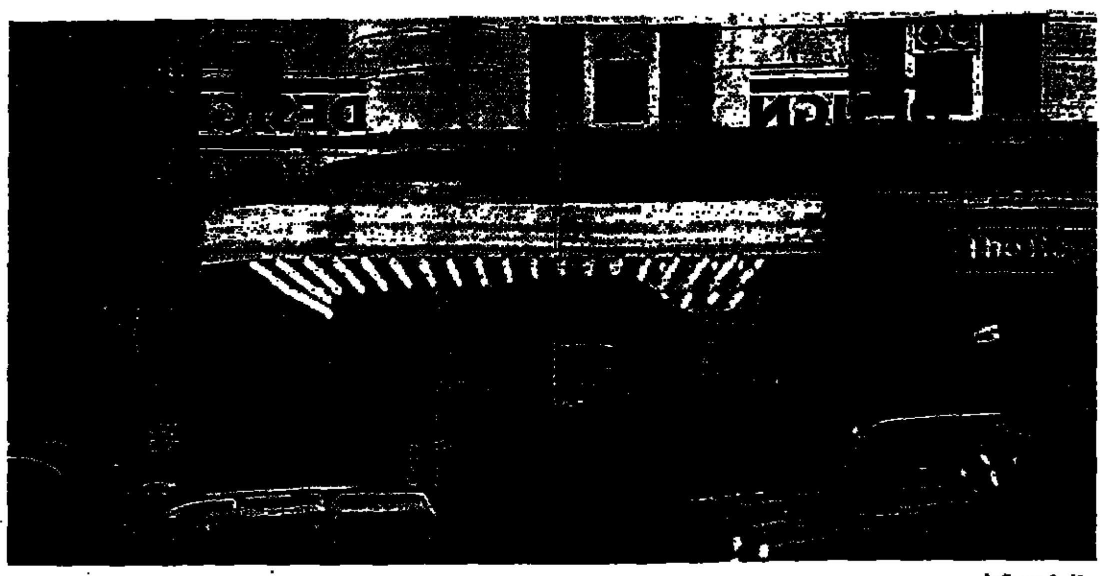
In Malaysia, where the fast food industry is growing at an estimated 10 to 15 per cent each year, Kentucky Fried Chicken outsells McDonald's. Chicken is the one mass consumption meat that all Malaysians – whether Malay, Chinese or Indian – can happily feast on. By the end of this year Colonel Saunders will be smiling over 150 branches throughout Malaysia.

Not everyone is happy about the US invasion of Asia's high streets. There are suspicions that along with the food, US values are being imported. Asia's leaders worry about a directionless, undisciplined younger generation lounging at eating joints.

Perhaps the tourists will be the most disappointed. If Asia continues on its present course the visitor will soon be able to walk down the road in Hong Kong, Bangkok, Kuala Lumpur and Jakarta – only to find the same restaurants as at home.

Design Council's day of judgment

If bidders are not found by next week, reports **Diane Summers**, some services will disappear



Lydia van der Meer

The council's Haymarket headquarters: an announcement in May that it would close caused less of an outcry than expected

Privatise or die: that is the ultimatum which a big chunk of the UK government-funded Design Council faces over the next week. Wednesday is the deadline for bids from outside organisations wanting to take over the council's range of industrial services. Before the end of the month these services are likely to have new owners, or be set to disappear.

The privatisation is part of a wholesale shake-up of the Design Council which began last September. Tim Sainsbury, trade and industry minister, made it clear that the existing body, which had provided design advice to British industry for nearly 50 years, was to be largely dismantled. In its place was to be reborn a much smaller, more highly-focused advisory body, which would not, itself, get involved in the direct delivery of services to industry and the design profession.

Its staff of about 200 was to be reduced by three-quarters, its annual £7.5m grant substantially cut, and its Haymarket, central London, offices vacated. Many of its industrial functions were to be transferred to the new national network of one-stop business service centres, called Business Links, which was being set up by the government.

The announcement caused less of an outcry than might have been expected, for over the years the council had lost much of its public profile. There was widespread criticism that the council had moved away from educating consumers and promoting to industry the styling aspects, for example, of design, while becoming increasingly pre-occupied with engineering issues.

John Sorrell, the newly-appointed chairman of the Design Council, himself a designer and a former chairman of the Design Business Association, began an intensive four-month review of the objectives and structure of the body. At the same time, the serving director general, Ivor Owen, stepped down and a career civil servant, Evelyn Ryle, moved in on a short-term assignment to shed or redeploy staff, and to dispose of the council's industrial services.

These services include:

- **Materials information service,** which provides enquirers with free information on the properties, sourcing and application of materials. The service is provided under contract to the Department of Trade and Industry.
- **Innovation noticeboard,** which helps to put inventors in touch with companies which could produce and market their ideas. Companies request to be included on the innovation database and projects are screened by panels of new product development specialists.
- **Design advisory service,** a subscription service which offers the help of design advisers to companies wanting to prepare specifications for design consultancy work, as well as recommending suitable design practices from a consultancy register.
- **Consultancy register,** which vets designers and includes them, for a fee, on a register. Disciplines on the register include graphics, interior, engineering, textiles and human factors design.
- **Enterprise Initiative design consultancy scheme,** which is operated under contract to the DTI and enables companies to use a specialist design consultancy for projects for up to 15 days, with at least a third of the cost paid by the DTI.
- **Industrial training and marketing,** which organises new product development seminars under contract to the DTI. This unit also markets the council's range of industrial services. A central research unit also supports these services.

The original intention was to keep all of the components of the industrial services together and to invite "integrated" bids from interested parties. Says Ryle: "The services together are bigger than the sum of the parts. No one person can be an expert in all the areas of design. The services we have feed off one another. We and the DTI started off by saying that, because of the synergy of the components, an integrated bid was a better solution if we could achieve it."

By the time the May 31 deadline for bids was reached, though, it was clear that the integrated option would not work. In spite of four full bids, Ryle was forced to write in a memo to staff two weeks ago: "I am sorry to have to tell you that, in the end, the financial contributions which the various parties were seeking from the government fell well outside what DTI would have considered acceptable, and therefore all the integrated bids failed."

In other words, all four bidders – their identities have not been disclosed – wanted to be assured of government grants to cover the less commercial parts of the operation. As Ryle admits: "Quite a lot of our work in these areas is subsidised by the Design Council's grant in aid. The Design Council never was, and was never intended to be, a fully commercial operation."

A further worry to bidders must have been the operation of the Business Links. It is still unclear exactly what their role will be in relation to design, and how much money they will have to spend on it. It is expected that the DTI will be reluctant to tie the hands of the Business Links by specifying that they must buy in the former Design Council industrial services.

Meanwhile, the "integrated" option has been jettisoned by Ryle and fresh bids for a piecemeal disposal have been invited. According to DesignWeek, interested bodies include the Chartered Institute of Marketing, the Chartered Society of Designers, the Design Business Association and the Design Museum.

It is likely that some synergy will be lost, says Ryle: "The amount lost will depend on how many of the individual bits we succeed in privatising and how prepared their new owners are to allow them to work co-operatively in the future." And what of those that fail the privatisation test? "If we don't have bidders for individual services, then it is unlikely that they have a future," she concludes.

TECHNOLOGY

John Griffiths reports on the race to perfect a new transmission system that will revolutionise vehicle manufacture

Revved up for a simple shift in gear

Rivalry is developing between two groups, Dutch and British, over innovations that could make conventional gearboxes redundant. Continuously variable transmission (CVT) systems are claimed to be more efficient and easier to use than the usual manual or automatic gearboxes.

The claim is made by Van Doorne's Transmissie of the Netherlands and the British Technology Group, whose transmission systems have been developed separately and work on different principles.

Although sales of the CVT systems that have appeared on the market and which have been confined to small cars are relatively disappointing, the rivals' activities are assuming significance for the world's car makers for two reasons.

First, Van Doorne, whose CVT technology is the only one used in cars on public sale, appears to have overcome engineering and other hurdles which have so far confined its system's commercial application to low-powered small cars. It has undergone trials successfully in Chrysler's Voyager multipurpose vehicle and a prototype has survived the 700-plus horsepower punishment provided by a Williams-Renault racing car in a three-year development programme.

Second, BTG has signed Ford as the first licensee for its Torotrak subsidiary's "infinitely variable" transmission. Ford is considering Torotrak for fitting to the successor to its Mondeo/Contour medium-sized "world" car at the end of the decade.

BTG says several other licensing agreements are about to be signed after more than three decades of development work on the transmission. It maintains the Torotrak IVT will cost no more to produce than a conventional four-speed automatic, while offering significant performance, flexibility and fuel economy advantages.

According to BTG's development engineers, it has shown fuel consumption savings of at least 15 per cent compared with a manual gearbox and a reduction in exhaust emissions of around 30 per cent. Unlike all other forms of transmission, including Van Doorne's, it requires no clutch to begin moving and it is claimed to be simpler and cheaper to produce than other systems.

Torotrak could be BTG's biggest commercial coup. Production could run to millions of units a year if the IVT provides a more efficient and adaptable transmission for vehicles from mechanical diggers to buses and racing cars.

The IVT has been under development, under various owners, since 1960. It is the variator mechanism, a few inches square, that lies at the heart of the Torotrak system and which, BTG insists, makes it a viable proposition for almost any type of vehicle. BTG believes that this holds the key to resolving the awkward compromise represented by current engine/gearbox systems.

An engine needs to rev fairly fast to produce its available power and has relatively low torque, or pulling power, at tickover. A clutch and a range of gears are, therefore, required to allow the car to pull away from standstill and move progressively to highway speeds. During much of this sequence, the engine is operating outside the fairly narrow range at which it is most power- and fuel-efficient.

The Torotrak offers significant performance, flexibility and fuel economy advantages over current systems

A conventional automatic gearbox replaces the manual clutch with a hydraulic torque converter. This has a similar function to the clutch but saps considerable amounts of energy, increasing fuel consumption. It, too, usually has only four gears so it also only rarely allows the engine to operate at maximum efficiency. The pursuit of greater flexibility is encouraging some transmission makers to build in five speeds, but this increases cost and complexity.

The current small crop of CVTs in everyday use, all using Van Doorne's technology, is manufactured by Ford for itself and Fiat; Volvo (also used by Rover), Subaru and Nissan are also using it. They allow the engine to operate at its optimum speed for fuel economy or power, depending on how the accelerator is used. However, they are relatively costly.

Torotrak offers the same ability to select the correct drive ratio for any combination of speed and load. But it requires no clutch and has no similar mechanisms to the expandable pulley system that makes the Van Doorne concept work.

The variator contains two power input discs which are driven, via a torsional damper, by the engine. Between them are two inner discs from which power is transmitted. Crucial to the concept is that the working face of each disc is curved. Between each set of inner and outer discs are three rollers. The angle of these rollers equates to the input/output ratio. Because the rollers can take up any angle within the spacial limits of each cavity, these ratios are effectively infinite.

Forces are transmitted between the discs and the rollers by a traction fluid, which under increasing loads becomes semi-solid and thus capable of transferring power through a shearing action. The system requires only a simple forward/reverse lever and if fitted to a powerful car could provide a motorway cruising ratio of up to 60 miles per hour per 1,000 rpm.

An electronic engine management system translates driver commands conveyed through the accelerator pedal into optimum engine performance, for maximum acceleration or cruising economy. However, because it is the powertrain's torque that is being directly controlled, not gear ratios, all kinds of characteristics can be built in through the controlling computer.

It would be easy, for example, to program six or seven distinct ratios for drivers who wanted the feel of a sports car, says Maurice Martin, one of the BTG executives in charge of Torotrak. The Torotrak system is not confined to vehicles and could be used to optimise the rotation of electricity-generating windmills.

Several other big advantages are claimed: the transmission has far fewer parts than a conventional system and requires no complex machining and no high-performance materials. Also, the traction fluid separates working surfaces so the transmission should last longer than a conventional unit.

BTG has invested £6m in the system since 1988. It has been working with Ford for several years, beginning with a prototype transmission in an Orion saloon. Ten Mondeos are to be fitted with the transmissions by early next year and will be evaluated by high-mileage users such as the police.

Ford remains cautious about whether it might eventually take out a full-scale manufacturing licence. "This represents one of the many efforts within Ford to study technologies that could improve customer satisfaction while being environmentally friendly," says Adam Mirren, Ford's powertrain research manager.

Van Doorne has no doubt its initiative is a front runner. Its newly-developed, "second generation" lightweight steel compression belts used to drive the expandable pulleys of its system provide the basis for transmissions usable "across a manufacturer's complete range", it says.

From socialism to free enterprise

Clive Cookson on the forthcoming flotation of the British Technology Group

The British Technology Group, whose roots lie in socialism and state intervention, is set to take the final step towards free enterprise: flotation on the London Stock Exchange.

Its business – managing intellectual property rights through the licensing of patents and know-how – is unlike any other quoted company. The BTG portfolio includes 1,400 individual technologies and 10,000 patents and patent applications, ranging from drugs to plastic processing, from crop protection to magnetic resonance imaging.

BTG is a direct descendant of the National Research Development Corporation and the National Enterprise Board, founded by Labour governments in 1949 and 1974 respectively to support the commercialisation of British research in the UK. It was privatised in 1992, in the face of opposition from some university scientists who feared that as a private company BTG would neglect their long-term interests in the search for profits.

The government decided then, on the advice of its advisers Price Waterhouse, that flotation was not the right way to privatise BTG. One reason, according to a recent National Audit Office report, was that "the company's specialised activities, combined with a declining performance and unpredictable environment, meant the sale would not have a wide appeal".

BTG was sold instead to a management-led consortium of staff, financial institutions and universities, for £27.8m.

Now the management, led by Ian Harvey, chief executive since 1985, and Jack Leonard, who became chairman last year, has decided that the group's progress over the two years since privatisation justifies a share sale "as soon as market conditions improve". That could be late this year or – more likely – next year. Kleinwort Benson, the merchant bank, has been appointed to advise on the flotation.

The main reason for floating, according to Rusi Kathoke, BTG finance director, is that high interest rates at the time of privatisation left the company with an unhealthily narrow capital base. The company aims to raise £15m to £20m, primarily to help fund greater international exploitation of its portfolio.

Valuing BTG will be difficult because there are no comparable quoted companies in the UK or elsewhere and BTG's financial record is patchy. The most recent results, for the year to 31 March 1994, show pre-tax profits of £4.16m on turnover of £29m, following losses of £3.89m in 1992-93 and £3.11m in 1991-92. However the 1994-95 results will be less good because the last of BTG's money-spinning patents for pyrethrin insecticides expires this year.

Discounted cash flow analysis, applying different risk factors to BTG's various income streams, suggests a market valuation in the region of £50m.

BTG has been adjusting to the expiry of the patents on cephalosporin antibiotics and pyrethrins, which were its main sources of revenue in the past. That leaves magnetic resonance imaging as the biggest single income source; all sales of MRI scanners anywhere in the world will yield royalty income until 2002.

Since privatisation BTG has become more focused, Harvey says. "Our business is the management of intellectual property. We are not a venture capital company and we are not consultants. We look for and acquire technology with commercial potential; if necessary we put our own funds into developing it. We then patent it in world markets and grant non-exclusive licences for its exploitation," he says.

UK universities and research establishments are the group's traditional source of technology. Until 1986 they were obliged to put the exploitation of publicly funded research in BTG's hands, and many continue to do so voluntarily.

Since losing its monopoly hold on UK state-funded research, BTG has developed new technology sources: companies, particularly in the US, such as ITT and Johnson & Johnson; and overseas universities including Amsterdam and Princeton. Harvey insists that BTG's global expansion will leave it better placed to serve the long-term interests of UK academic researchers.

BTG has identified a "top 12" from the 1,400 individual technologies in its portfolio, which it expects to provide the best commercial returns over the next 15 years. One is Torotrak. Others include natural pesticides to follow up the pyrethrins, anti-cancer drugs, a plastic injection moulding technique called Scortec, non-woven textiles and dental cements.

PEOPLE

Santini posted at Mills & Allen

Musical chairs at Mills & Allen, one of the UK's leading outdoor media – poster – groups, a subsidiary of the French advertising and media group Avenir Havas Media.

Philippe Santini (right), 44, currently Mills & Allen's chief executive for the past four years, is off to become directeur general of Avenir France, a company with a FFr 1bn annual turnover, some three times larger than Mills & Allen.

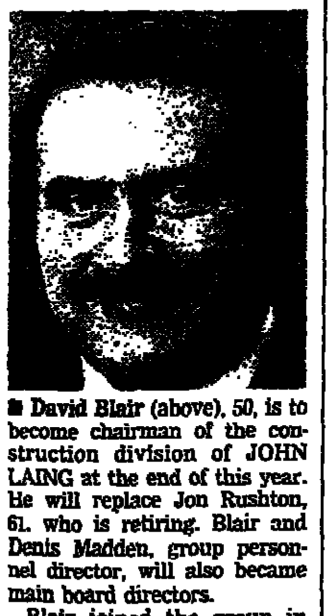
There Santini will be in charge of a staff of 900, who operate 49,000 poster sites across France. Colm OCuilleanáin will be moving after 11 years as managing director of David Allen, another AHM subsidiary and one of Ireland's leading outdoor specialists, to take over from Santini.

Santini will be remaining chief executive and chairman of Sky Sites, the international airports advertising group within the AHM orbit. Santini has been with the group since 1980, when he joined Avenir-AHM as a product manager, later becoming head of research.

OCuilleanáin, 38, first worked for Burroughs Computers (now Unisys) as a trainee sales and marketing executive, joining David Allen in 1982, and becoming its managing director in 1983.

He is replaced at David Allen by Roisin O'Boyle, 34, who after university first worked for Ireland's Industrial Development Authority. She later moved to Foir Teoranta, an Irish state bank set up to subsidise ailing private sector companies. She joined David Allen in 1992 as sales and marketing director.

Constructive careers



■ David Blair (above), 50, is to become chairman of the construction division of JOHN LAING at the end of this year. He will replace Jon Rushton, 61, who is retiring. Blair and Denis Madden, group personnel director, will also became main board directors.

Blair joined the group in 1962. He is currently a director of the construction and international divisions, responsible for the group's civil engineering activities.

John Laing also appointed three associate directors: Derrick Ardern, chairman of the property division; Bruce Boys, chairman and managing director of the international division, and Stephen Lidgate, chief executive of Laing Homes.

■ Colin Cole has been appointed deputy group finance director of WESTBURY HOMES.

■ Ebbe Dinesen has been appointed chief executive of Carlsberg-Tetley Brewing, part of ALLIED-LYONS, in succession to Don Marshall who will become a vice-chairman of the company and remain on the Carlsberg Tetley board until he retires at the end of the year.

■ Bob Wiper, chief executive of National Tyres and Autocare, part of Continental Tyre and Rubber Group, has been appointed chief executive of National Express Ltd, part of NATIONAL EXPRESS GROUP.

■ David McCall has been appointed chairman of Anglia Television on the retirement of Sir Peter Gibbings, and to the boards of MAI, and MAI Broadcasting. Malcolm Wall, deputy chief executive of Meridian, has been appointed md of Anglia, and Mike Hughes, deputy chief executive of Anglia, has been appointed resource and development director of MAI Broadcasting and a director of Meridian.

■ Peter Phillipson, marketing director (international region) for United Distillers, has been appointed commercial director of OWNERS ABROAD; Tony Coleman joins as group human resources director from Grand Met.

■ Tony Elliott has been promoted to director, sales & marketing, of Masterdrive, part of LONRHO.

■ Ulf Mattsson has been appointed md of TARKETT in the UK.

■ Peter Brown is promoted to group md of Europe for TOMY.

Insurance moves

■ Bob Hewes, 49, currently director, regulatory services, has been appointed director, finance, of LLOYD'S OF LONDON, to succeed Stephen Hall. Hall, who will have been in the job for about 18 months when he retires, probably at the end of the year, was a short-term appointment. Until his successor is appointed, Hewes will remain responsible for regulatory services.

■ Chris Hatry has been appointed strategy director of LEGAL & GENERAL; he is replaced as md life & pensions (sales & marketing) by Robin Phipps, who is in turn replaced as md life & pensions (customer services) by Andrew Palmer.

■ Ashok Gupta, previously actuary and general manager (finance) of SCOTTISH AMICABLE, has been appointed finance director. Gavin Stewart, formerly deputy md of Britannia Life, is appointed head of product marketing.

■ John Barber has been promoted to be group chief executive of MUNICIPAL MUTUAL INSURANCE.

■ Arno Kitts has been appointed chief executive (UK) of The INDEPENDENT ORDER OF FORESTERS.

■ Andrew Campbell-Hart, formerly ceo and deputy chairman of E.W. Payne, has been appointed head of STANDARD & POOR's insurance ratings group in London, on the retirement of John Gardiner.

Non-executive directors

■ Lady Gabrielle Greenbury, 39, is joining the board of PRINCEDALE GROUP, the small marketing services company in which Sir Harry Solomon, the ex-chairman of Hillsdown, has a substantial stake.

Lady Greenbury and her husband, Marks and Spencer chairman Sir Richard Greenbury, are old friends of Sir Harry Solomon who stepped down as Hillsdown's chairman last year. Sir Harry invested £650,000 in Princedale a year ago when the company bought three of Hillsdown's peripheral businesses.

Lady Greenbury, who also sits on the board of the National Theatre, has been helping one of Princedale's design companies for some months.

■ Brian Moffat, chairman and chief executive of British Steel, at DELTA.

■ Tom Farmer, chairman and chief executive of Kwik-Fit Holdings, at AIRTOURS.

■ Mary Redmond, a solicitor specialising in labour law and a former member of the Employment Equality Agency and the Higher Education Authority, has been appointed to the court of directors of BANK OF IRELAND.

■ Anthony Forbes (below), the former joint senior partner of Cazenove & Co, is joining the board of another Cazenove client. He is to be appointed a non-executive director of WATMOUGHS (Holdings), the Bradford-based printing group, on July 26. Last week he joined the board of Carlton Communications which retains Cazenove as its joint broker. Patrick Walker, Watmoughs' chairman, says Cazenove had brought the company to the stock market in 1965 and had always maintained a special interest in its affairs.

ARTS

Comedy lost without logic: Martin Clunes with imagined wedding guests in 'Staggered'

Cinema/**Nigel Andrews**

Several herrings short of a catch

To be a filmgoer is to be caught in an eternal duel for your attention between two weapons: the exclamation point and the question mark. You hope the first will triumph, and that you will be painlessly lanced by delight, hilarity or amazement. More often the second prevails. Queries lodge in your head like fish-hooks. You cannot enjoy the movie because you keep asking: Why would such-and-such happen to So-and-So, and what on earth is the logic of Whatsisname doing whateveritis.

Take *Staggered*, a British comedy. In three days, toy demonstrator Neil (Martin Clunes) is to marry pretty Hilary (Sarah Winman). But on stag night his prospective best man Gary (Michael Praed) drugs him and heli-copters him off to a remote Scottish island.

So far, so logical. Gary is enamoured of ex-flame Hilary and wants to push Neil out of the picture. It is *after* our hero awakes naked on his shingle that the film starts to look several herrings short of a full catch.

First Neil, finding the only phone booth for miles around, makes a reverse-charge call to Gary, whom we see answer it without any "Will you accept the call?" preliminaries from the operator. Then when Neil is directed by Gary to an Aberdeen Airport locker where he will find proper clothes (he hitches a lift from a passing supply plane), we watch him embarrassedly change into the clothes right there in front of two cleaners. Why? It is a minor point – but why not use the airport loo?

Shortly after that Neil is arrested on touchdown at Newcastle Airport by the local Chief Inspector (John Forgeham), who speaks with a Birmingham accent. Why? Then we learn that it is apparently the habit in Newcastle for a busy Inspector to stay handcuffed all night to his captive as the latter lies in bed. Why? Then when the captive wants to make a vital telephone call in a hospital, the only available phone is in the morgue. Why? So that plot wheels can turn and Neil can meet his girlfriend-to-be, a vampiric pathologist called Carmen (Anna Chancellor).

And so on. I looked at my scribbled notes after the film and each one began with "Why?" Comedy is lost without logic, for it is the art of taking that logic and tickling it until it unbends into chaos. If you begin with an illogical premise – let alone an army of them – what "undoing" is there to laugh at? Faced with a senseless world, what is funny about additional senselessness? Persons to blame: writers Simon Braithwaite and Paul Alexander. Person to pity: Martin Clunes, who as well as acting was drafted in late to direct.

Then there is the horror side of question-mark cinema. In *Needful Things*, directed by Fraser C. Heston (Charlton's son) from Stephen King's novel, why does the promising plot about the Devil visiting a small New England town, in the guise of antiquarian Max Von Sydow, go so remorselessly to pieces? Von Sydow sells each townsperson the object of their dreams in exchange for a diabolical favour. So a strongish cast – Amanda Plummer, Ed Harris, Bonnie Bedelia – spends its time maiming, murdering or tormenting their fellows.

Mr Von Satan, you see, wants to set the town on its ears. By pricking everyone into acts of motiveless spite – as in *Strangers On A Train* person A does person B's dirty work and so on – he ignites dormant grudges into a conflagration of hate.

But wait. Why, as soon as the townspeople twig to the disproportion between the gratification of their modest wishes and the heinous crimes required of them, do they not boot the old devil out of town? Why does it take two hours of screen-time to finger Old Max as Old Nick? Answer: because none of these townspeople is a living character, merely a pawn in King's plot. What is more, the plot is an old one. It was done before not just by Highsmith/Hitchcock, but by novelist Dashiell Hammett in *Red Harvest*. And done much much better.

★

We must not be dogmatically "either-or" about the question mark/exclamation mark issue. Some films mix the two together. From France Pierre Salvadori's comedy *Wild Target* is nearly all exclamation: with its sweetly logical plot about a fussy hitman (Jean Rochefort), his stumbling apprentice (Guillaume Depardieu) and the pretty girl they turn from quarry into *protégée* (Marie Trintignant).

The parrot jokes are excellent. Rochefort's Victor Meynard – part Clouseau, part Phileas Fogg – is impeccably developed. And some lines get a roar. "Medium height, medium build, medium moustache" bumbles the villain's henchman to his boss, trying to describe the unknown assassin he has just glimpsed. "Victor Meynard!" declaims the instantly enlightened boss. Only a brief outbreak of over-contriving in mid-movie turns our smiles into frowns. (How *could* those Spanish guitarists have got to that car crash scene?)

As for *The Saint Of Fort Washington*, an initial flurry of where-are-we's – as Matt Dillon is demoted to down-and-out status in dingiest New York and no less precipitately becomes soul-buddy with black street-sleeper Danny Glover – compose themselves into a movie that leavens social-realist sentimentality with moments that more sharply expose NY's welfare system and geography. The last-scene visit to the city's dumping ground for the homeless dead, in a mass unmarked grave on a neighbour island, is chillingly moving.

★

But the best film of the week is *Go Fish*: all exclamation points and no queries. We may be unfamiliar with lesbian life in 1990s Chicago, but not after this. A comedy of counter-culture manners directed by Rose Troche and co-written by her and the film's star Genevieve Turner – she plays the kooky girl with the back-to-front baseball cap – it is very funny and discombobulatingly frank. Are there any Sapphic courting rites you do not know about? Or any female body parts you do not know gay women's favourite nickname for? Again: not after this.

The film was made with what must have been someone's loose change after a wild night at the disco. Grainy black-and-white rules. The sound recording is basic. And the camera clambers over rough-lit faces and bodies and furnishing items, like a house guest trying to find his or her sleeping bag.

But after the doggerel of the week's commercial film-making, this is free verse by a genius. The offhand-funny dialogue is a delight. It mixes spoof gusts of agitprop correctness – "She doesn't seem to be interested in her own oppression" – with a raunchy wit and candour that male chauvinists (straight or gay) will be shocked to discover is not their exclusive preserve.

At the centre: a love affair between the pretty Max (Ms Turner) and the pikestaff-plain Ely (V.S. Brodie). This begins by defying probability – especially when beaky Ely increases her mirror-cracking potential by shaving her long hair into a punk cut – but ends by totally charming and persuading us.

Around the amorous knot-tiers gather such exotics as Kia, Evy and Daria, swapping one-liners or lying in heads-together truth-game sessions under the one flashlight that seems to serve for the film's lighting equipment. By rights this film should have been an amateurish, doctrinaire chunk of sexual-minority special pleading. Instead it is the best film of the season and could well be the most charming film of the year.

STAGGERED (15)
Martin Clunes

NEEDFUL THINGS (15)
Fraser C. Heston

WILD TARGET (15)
Pierre Salvadori

THE SAINT OF FORT WASHINGTON (15)
Tim Hunter

GO FISH (18)
Rose Troche

Theatre/**Malcolm Rutherford**

A Collier's Friday Night

DH Lawrence was a *very* good playwright. *A Collier's Friday Night* was written around 1906 when Lawrence was 21 and, in the author's own words, "before I'd done almost anything." He described it as "most horribly green".

The text was not published until 1934 and according to the record books, which may of course be wrong, the piece went unproduced until 1965 when it was performed without decor at the Royal Court. The Court put on a season of Lawrence plays, including *Friday Night*, three years later. The edition of the play in my local library had not been taken out since August 1975.

John Dove, the director at the Hampstead Theatre, is something of a specialist in Lawrence drama, and it shows. Every loving detail of the collier's house is there: the huge kettle on the hob, the home-baked bread, the lamps, the way of washing without baths. But it is not only the detail that scores. As a play, *Friday Night* is not remotely green; it is quite remarkably mature.

One may ponder the date of writing. Around 1906 European theatre was at one of its all-time highs. Lawrence, the student, must have read Ibsen, Shaw, Wilde and the rest of them, even if he had not seen their plays. *Friday Night* is up with the best of that other contemporary writer, Harley Granville Barker.

Some will enjoy the play for what it foreshadows of Lawrence's later novels, notably *Sons and Lovers*. It is closely autobiographical: educated son of a miner, but whose mother is much more middle class. There is also the mother's jealousy of the son's girl-friend.

Yet the play stands it is own right. The nearest analogy currently on the London stage is Githa Sowerby's *Rutherford & Son*, written in 1912 and showing at the Cottesloe. Both depend heavily on a mixture of social realism and feeling. Both are surprisingly sympathetic to the main male figure: superficially a tyrant, but not to be wholly condemned.

In *Rutherford & Son* the man is a factory-owner. In *Friday Night* he goes down the pit. Played by Edward Peel, he is a strong handsome figure, especially when the grime is off. One can see why his wife (the everlasting Barbara Jefford) fell for him in the first place. He is not a stereotype; as he points out, he has allowed his son a college education, despite the son's resentment of his father's manners. Moreover, practically all the members of the family have moments of brutality resembling their father's. This is a family study.

It is not all quarrelling. There is a lovely line when the son reads in the Derby newspaper of the death of Swinburne and a superb vignette as the miners discover the workings of the newly invented fountain pen: "It works just like a pump". Indeed Dove's triumph as director lies in not overdoing the intensity.

Ernest, the earnest son, is played by Dominic Rowan who rightly lets the role develop as the play goes on. He may be educated, but he is not tolerant. The design by Robert Jones and the lighting by Mark Henderson belong to the top of the first division in any theatre.

Hampstead Theatre (071) 722 9301

Concert/**Richard Fairman**

Jansons and the LSO

This concert was part of the City of London Festival, though there was little to alert the audience to the fact. There was no mention of the festival in the evening's programme and if the Barbican has any City of London Festival leaflets on display, I did not find them.

On the festival's side this is hard to explain. It is hardly plausible that it would want to hide any connection with a concert by the London Symphony Orchestra under Mariss Jansons, when the Corporation of London itself funds the Barbican Centre and is the principal sponsor of the orchestra. The standard achieved by these performers on Tuesday was also predictably high.

Neither Jansons nor the violinist Midori has been particularly associated with Brahms in the past, so a performance by them of the Violin Concerto was likely to view the work from an unusual slant. In the event, Midori played the notes with exemplary cut-glass precision, fired with plenty of spontaneity, but the result was still brittle. There is a warm contentment at the heart of this music (Anne-Sophie Mutter's deep-seated relaxation as a performer homes in on it naturally) whereas Midori is always looking for tension. The rosy glow of Brahmsian colours does not feature on her tonal palette.

The sturdy, rich texture of Brahms's orchestra is not second nature to Jansons either, but his ability to render an orchestra's sound crystal clear is so remarkable that complaining is out of the question. Given that he has never before shown ambitions as a Wagnerian (has he ever conducted any of the operas?) a selection of orchestral numbers from Wagner's operatic output was quite a novelty.

The key item here was the *Prelude and Liebestod* from *Tristan und Isolde*. Cultured, perfectly balanced, onwardly flowing, flamboyant in the most exquisitely judged way, the performance shared characteristics with one of the most highly-regarded Wagnerians of the day: Carlos Kleiber, whose *Tristan* has passed into legend, not least because he never conducts it any more. The Funeral March from *Götterdämmerung* followed, then the *Ride of the Valkyries* – pure Jansons this number, bringing in the big tune on the trombones like the arrival of the heavy squad, then whipping up the pace to the end. The LSO responded to him with splendid playing.

Perhaps an opera-house somewhere might take the plunge and give Jansons a whole Wagner opera. Admirers of this exciting conductor in London, however, will in future have to cross the river to see him with the London Philharmonic, for whom he is now principal guest conductor. They had better use his talents to the full.

Recital/**David Murray**

An eager throng for Lieder winner

The Wigmore Hall was packed on Tuesday, for a young German baritone who has never sung here and whose recordings have not reached Britain. The fact that he was a winner in some important *Lieder* competitions four and five years ago would hardly explain the eager throng. Rather, what drew them was the Wigmore's advance brochure, with the vital information that Görne has been the chosen pupil of both Fischer-Dieskau and Dame Elisabeth Schwarzkopf, master-artists who do not take on apprentices lightly.

Sure enough, he proved to be a marvel in late Schubert songs – the *Schwanengesang* collection, amplified by other songs on Seidl verses. The words were utterly limpid, and thoughtfully penetrated. The voice has a potent individual appeal: essentially a *high* baritone, with lovely ascents into head-voice but with the manly weight of a deeper instrument. (It was only in "Der Atlas", of which he made a very good fist, that we noticed his toneless bass.) In detail, the joining of note to note was exquisite. There was never a lapse in the stream of cultivated tone, nor any unconvincing musical phrase, nor yet any German consonant fudged for the sake of smoothness.

In short, Görne was a rare pleasure to hear. Not exactly "mature beyond his years" as a performing artist – he never attempted the sharp dramatic thrusts that lit up Schwarzkopf's and Dieskau's interpretations; but a prodigy, beyond argument, of fluid musico-technical perfection. He was born in Chemnitz, and trained originally in Leipzig; like his older compatriot Olaf Baer, he is the product of a thorough, old-fashioned training which put a premium on solid musicianship and still left a kind of innocence intact.

His sophisticated polish was surely acquired through his famous Western teachers. At the moment, he seems temperamentally most at home with Schubertian melancholy, as in "Kriegers Ahnung", "Ihr Bild" and "Die Stadt" – winning performances, every one. His accompanist here was the veteran Irwin Gage, intent upon leaving the young singer the spotlight and all the room he wanted. Lighter and brighter songs were a bit tame: the pigeon go-between in "Die Taubenpost" was plainly ambling, not flying. All in all, however, Görne sets an extraordinary standard which very few young *Lieder* singers now can hope to match.

INTERNATIONAL ARTS GUIDE

FESTIVALS GUIDE

■ GLYNDEBOURNE

The next new production is Don Giovanni, opening on Sunday in a staging by Deborah Warner conducted by Simon Rattle, with a cast led by Gilles Cachemaille (repeated July 13, 17, 22, 26, 29, August 1, 4, 7, 10, 13, 16, 19, 21, 24).
The new theatre has already made a cracking start with Le nozze di Figaro starring Renée Fleming and Alison Hagley (next performances July 8, 12, 15), Graham Vick's new staging of Yevgeny Onegin with Yelena Prokina as Tatyana (July 11, 14, 20, 24) and a revival of Glyndebourne's classic production of The Rake's Progress in David Hockney's sets (July 9, 16, 21, 27, 30, August 2, 5, 8, 11, 14).
Trevor Nunn's 1992 production of Peter Grimes is revived on July 31 with a cast headed by Anthony Rolfe Johnson and Vivian Tierney (0273-541111)

■ MACERATA

This year's operas are Carmen (July 16-August 11), La boheme (July 23-August 12) and L'elisir d'amore (August 4-13). The Bizet, conducted by Alain Guingal and staged by Gilbert Deflo, has changing casts including Denyce Graves/Lucia Valentini Terrani in the title role and Neil Shicoff/Fabio Armiliato as Don José. Giusy Devinu sings Mimi in the Puccini, and the Donizetti cast is headed by Valeria Esposito, Pietro Ballo and Enzo Dara (0733-230735)

■ OSLO

Founded by Norwegian violinist Arve Tellefsen in 1989, the Oslo Chamber Music Festival has quickly won a reputation for conviviality and musical quality. Concerts take place in churches, castles and concert halls around Oslo, with each year's programme focusing on a different country. This year (August 5-13) is Britain's turn, with music ranging from Byrd and Bridge to David Matthews and Oliver Knussen. The Nash and Hilliard Ensembles are taking part, while Truls Mork will play Elgar's Cello Concerto and Yuri Bashmet gives a viola recital (2255 2553)

■ RAVENNA

This north Italian town is Riccardo Muti's home, and he has become the main force behind the annual festival. He will conduct a staged production of Norma on July 16, 19, 21 and 23, with Jane Eaglen in the title role, and also Verdi's Requiem on July 20 and 22. The main event next week is a concert on Mon by the Philharmonia Orchestra conducted by Myung-Whun Chung (0544-32577)

■ SANTA FE

This year's festival opened last weekend with new productions of Tosca and Il barbiere di Siviglia. The Puccini is conducted by John Crosby and staged by John Copley, with a cast headed by Mary Jane Johnson, Neil Rosenshein and Timothy Noble (continues till Aug 27). The Rossini is conducted by Evelino Pido and staged by Francesca Zambello, with Delores Ziegler as Rosina (till Aug 26).
The third new production is Die Entführung aus dem Serail, conducted by Kenneth Montgomery and staged by Graham Vick (July 16-Aug 24). Judith Weir's Blond Eckbert receives its US premiere on July 30, less than four months after it was unveiled by ENO in London. A revival of Göran Jarvefelt's 1984 production of Intermezzo completes the bill (July 23-Aug 25), with Sheri Greenawald and Dale Duesing as the Storchs. And the pleasures of the place itself never pall (505-986 5900)

■ SALZBURG

This year's festival (July 25-August 31) takes to the sky with the premiere of Stockhausen's Helicopter Quartet: while the composer controls the sound electronically in the Mozarteum, members of the Arditti Quartet will play their parts in four airborne helicopters. Back on terra firma, this year's flagship opera production is Don Giovanni, staged by Patrice Chéreau and conducted by Daniel Barenboim, with a cast headed by Ferruccio Furlanetto, Bryn Terfel, Catherine Malfitano and Cecilia Bartoli. The opera programme otherwise has a Russian emphasis, with three Stravinsky stagings and a revival of the Claudio Abbado/Herbert Wernicke production of Boris Godunov, with Samuel Ramey in the title role.
In the concert hall, Nikolaus Harnoncourt conducts the Chamber Orchestra of Europe in two cycles of Beethoven symphonies at the Mozarteum. The Vienna Philharmonic's concerts at the Grosses Festspielhaus are conducted by Muti, Haitink, Solti, Jansons and Boulez. The drama programme continues to gather strength, with Shakespeare's Antony and Cleopatra directed by Peter Stein and Pirandello's The Mountain Giants directed by Luca Ronconi (tel 0662-844501 fax 0662-846682)

■ SAVONLINNA

No one who visits Finland's premier summer festival can fail to be impressed by the stone castle courtyard in which it takes place. Poised on the edge of a lake, Olaf's Castle (Olavinlinna) is an outstanding outdoor location for opera. The 1994 programme, which opened last night, is one of the least distinctive of recent years, with revivals of last year's successful production of Verdi's Macbeth (till July 19), the evergreen Die Zauberflöte (till July 15) and a visit from the Hungarian National Opera. One of the more eye-catching events is a student production of Yevgeny Onegin in the final week. The festival runs till July 30 (057-273492)

■ SPOLETO

This year's Spoleto Festival is in its final week. The two main productions are Berg's Wozzeck and a Poulenc double-bill pairing his surreal opera Les mamelles de Tirésias with a reconstruction of Nijinska's original choreography of Les Biches. There is still a chance to catch Roland Petit's Ballet National de Marseille and an Italian-language production of Arthur Miller's The Last Yankee. The festival ends on Sunday with Beethoven's Ninth Symphony in the cathedral piazza, conducted by Christian Thielemann (0743-40265)

■ TANGLEWOOD

Tanglewood, in the heart of the Massachusetts countryside, is the summer home of the Boston Symphony Orchestra. Jessye Norman, Yo Yo Ma and Peter Serkin join Seji Ozawa and the orchestra for tonight's gala opening of the new concert hall. Guest artists during the coming week include David Zinman and the Minnesota Orchestra, Thomas Hampson, Mariss Jansons and the Juilliard Quartet.
The festival runs till Sep 4 (Ticketmaster Boston 617-931 2000 Western Massachusetts 413-733 2500 New York City 212-307 7171 other areas 1-800 347 0808)

■ TORROELLA DE MONTGRI

Torroella de Montgri is a small Catalan town 6km from the sea on the Costa Brava, but it is not primarily a tourist resort. The town is architecturally typical of the Empordà and is set in beautifully natural surroundings.
The summer music festival, which opens tomorrow, mixes Spanish artists of the calibre of Giacomo Aragall and Jordi Savall with international guests such as the Franz Liszt Chamber Orchestra and the Choir and Orchestra of the St Petersburg Capella (072-761098)

■ VADSTEJNA

Vadstejna's annual opera festival takes place in the historic buildings of this charming medieval town 250km south-west of Stockholm. The festival is renowned for its exploration of forgotten works. This summer's opening production is a Swedish-language version of Cimarosa's 1776 opera I sdegni per amore (The Misadventures of Love), which runs till July 15. The second opera is The Various Adventures of Mrs Björk, a tragi-comedy by Swedish composer Staffan Mossenmark based on a novel by Jonas Cardell. This opens on July 28 and runs till August 12. There will also be an opera gala in the Vadstejna Castle courtyard on August 7 (Tickets 0143-10094 Information 0143-12229)

ARTS GUIDE

Monday: Performing arts guide city by city.
Tuesday: Performing arts guide city by city.
Wednesday: Festivals guide.
Thursday: Festivals guide.
Friday: Exhibitions Guide.

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Sky News: FT Reports 0430, 1730;

Life with the bear's necessities

BOOK REVIEW

DAMAGE LIMITATION OR CRISIS? Russia and the Outside World
Edited by Robert D Blackwill and Sergei A Karaganov
Brasseys, $18.50, 352 pages

Amid the steady stream of books on the former *Soviet* Union, this one is rare. *It* is concerned with a present, rather than a past, debate. Its subject is one which consumes foreign offices worldwide: what place will the states of the former Soviet Union, above all Russia, find *for themselves in the world?* And, whatever that place is, *will they find it peacefully?*

Russia's actions are often seen, in the west, through the recently acquired filter of "neo imperialism". This has been our over-correction to what was on the Russian part an over-accommodation of western foreign policy goals and strategies in the 12 to 18 months immediately after the August 1991 coup and the collapse of the Soviet Union. It was a period which Sergei Karaganov, deputy director of the Institute of Europe in Moscow and co-editor of this book, calls *"the time of Mister Yes"*.

The first signs that Russia's *accommodation of the west* could not be sustained came in 1992, when President Boris Yeltsin abruptly cancelled a visit to Tokyo because of pressure from increasingly powerful nationalist politicians who thought he would return to the Japanese some or all four of the Kurile Islands, which the Soviet Union seized after the second world war.

By late 1993, Russia's leadership was obviously groping for an independent position. A military doctrine was approved which legitimised intervention in the "near abroad" (former Soviet states) and allowed for a first nuclear strike.

The world was told that Russia could no longer "say yes" when the nationalist Vladimir Zhirinovsky began his extraordinary run in the December 1993 parliamentary elections. *Both President Yeltsin* and Andrei Kozyrev, foreign minister, made watershed speeches. Early this year, Yeltsin said that emphasis would be placed on "the defence of Russia's national interests, of the rights of the Russian and Russian-speaking populations within the guidelines of international law and proceeding from the idea of all-national solidarity". These were phrases which, in their vagueness, were the more threatening. Kozyrev, claiming *that the "main threats"* to Russia came from the near abroad, *told senior Russian diplomats:* "I think that raising the question about complete withdrawal and removal of any Russian military presence from the countries of the near abroad is just an extreme, if not extremist, suggestion". These remarks, as reported by the official news service, could have applied to troops in the Baltics, which Russia had pledged to withdraw – but the interpretation was denied.

It is easy to show that these words have been fleshed out with actions and thus used to *construct a neo-imperialist scenario:* Russian intervention in *Moldova, Georgia, the Armenian-Azeri* conflict, Tajikistan; threats to Estonia, *Latvia* and Ukraine (over Crimea); claims to primacy in all things among members of the Commonwealth of Independent States. The Russian bear would seem again aroused, sharp-clawed and snarling.

However, the basic message of the book – there are many disagreements within it – is that this is not yet the case. It could, however, become so, *especially* if the west assumed imperialist designs and reacted accordingly. Russia *will* have to dominate the "near abroad" but, argue most Russian contributors, this is not imperialism because it is forced on her.

Says Karaganov: "Russia must choose between (1) partial reintegration of parts of the former Soviet Union in a *confederative-like structure,* along with management of instability in the rest of the former Soviet states; and (2) the creation of a system of dependent and dominated states with only formal independence, along the model of US relations with central American states. The second choice is bad but preferable to the first. This decision will face Moscow whoever is in power."

Igor Klyamkin, a Russian historian whose essay on democracy in Russia is one of the best things in a good book, argues that the west should recognise Russia as the hegemonic regional power in exchange for its commitments *to democratic development.* Andrei Kortunov, head of *foreign policy at Moscow's Institute* of USA and Canadian Studies, observes accurately that "off the record, [US] State Department officials often talk in favour of a Russian sphere of influence in Eurasia. But the toughening Russian policy towards the former republics will force the White House to distance itself from the Kremlin's political and military claims at least at the level of rhetoric... The former Soviet republics might need resolute and firm western leadership more than ever before, but the west is *less prepared than ever* to provide this leadership."

The Kremlin appears to have imbibed this message. We can thus expect a Russian policy moderated by considerations of the western response only insofar as that response touches vital Russian interests; and there is disagreement in Moscow over how vital financial *aid is considered* to be.

Robert Blackwill, a Harvard academic and former diplomat, warns of the need to "get ready for a crisis generated by Ukrainian fragmentation". But the west – as Kortunov notes – does not want to be bothered with this. The problem will thus, *by default, be left to the* Russians, who, since they favour integration, will face opposition, possibly armed, from Ukrainian nationalists.

"Historians," conclude Blackwill and Karaganov, "are unlikely to be kind to western and Russian leaders who failed to take advantage of the extraordinary opportunity that presented *itself in the period* immediately following the Soviet collapse." *Damage Limitation or Crisis?* leaves little doubt that the main authors believe that this failure is well along the road. If so, we are indeed in for trouble.

John Lloyd

ECONOMIC VIEWPOINT

How 'Nimbies' will curb recovery

By Samuel Brittan

A "Nimby", for the benefit of non-British readers, is someone who says "not in my backyard". The word came into fashion in the 1980s to describe people who were all in favour *of economic growth and housing* development in general, but were fiercely opposed to it in their own vicinity.

It has often been justified by high-sounding references to preserving rural England, *maintaining* local amenities and protecting areas of natural beauty. But in *practice* the most important force behind it has been people's urge to maintain and boost the value of their own property by suppressing new building which could bring down values. An occasional subsidiary motive has been a snobbish dislike of urban newcomers who might change the character of semi-*rural or outer suburban* areas.

For the moment, Nimbyism *is not a very live issue. Construction* has lagged well behind the rest of the economy in its recovery from recession. So have house prices. After an initial small spurt at the beginning of 1994, house prices are now no higher than a year ago.

This lack of a property boom so far is a good sign. Soaring domestic property values have been an unhealthy development in each of the last few booms. By giving rise to large paper gains in personal wealth, they *stimulated consumer* borrowing and then left behind a *legacy of debt which prolonged* the recession period. The property cycle is a magnified version of the general boom and bust cycle, and accounts for much of the latter's virulence.

But the effects are not only cyclical. In the period 1968-88 the prices of new houses rose twice as fast as prices in general; and the price of housing land rose on average twice as fast as house prices them-*selves. The cumulative* increase in the housing land price over the two decades was 350 per cent above inflation.

The resulting real increase in housing costs has discouraged workers from moving to where the jobs are; it has increased the poverty of the less skilled and discouraged them from taking low-paid work. *Housing market distortions* are second only to labour market rigidities in causing structural unemployment.

A sign of healthy and sustainable economic growth would be a long period in which houses were bought as homes and not as a speculation, in which houses became more affordable rather than less, and renting returned as a normal form of house tenure, especially suitable for younger and more mobile households.

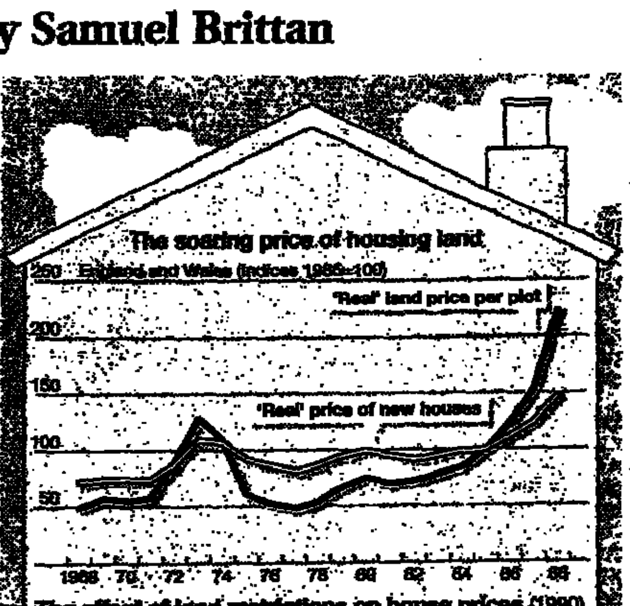
In the short term, the housing stock is fairly stable and house prices depend on demand. But the price of land has a big influence in the longer term. For it determines the *prices at which builders can* profitably increase the supply *of dwellings to respond to rising* demands. To the extent that land is pure space, its price depends on the amount released for new development.

A study*, commissioned by the Department of the Environment itself, gives some estimates of the cost of Nimbyism. It rejects the extreme view that the planning system puts a straitjacket on the amount of land available for development.

There are three elements of elasticity in the supply of land *for house building.* First, adjustments can be made to *development plans at both the* structure and the local level. *For instance, the Berkshire* plan for residential development was increased by the government in both 1983 and 1988 to allow for more housing.

There has been some modest streamlining of the planning system. As a result of quicker decisions and improved organisation by house builders, the time taken for the supply of *land to respond* to an increase in demand has fallen from three years in the early 1970s to two years in 1990.

Unfortunately, however, successive secretaries of state for the environment have become ever more restrictive in their willingness to release land for development. "One nation Toryism" has been identified *more and more with the* interests of property holders in the shire counties and on the rural fringes of the conurbations. Scrubland, which few people want to look at or use for recreation, has been retained in green belts, along with areas such as the South Downs and the Cotswolds.



The effect of land restrictions on house prices (1990)

Town	(1) House price	(2) Plot value	(3) Value in alternative uses	(4) Difference (2)-(3)	(5) % of house price (4)÷(1)
	(£)	(£)	(£)	(£)	(%)
Reigate	140,000	69,000	19,000	50,500	36
Wokingham	115,000	60,600	12,000	48,600	42
Beverley	100,000	29,000	13,000	16,000	16

Source: Department of Environment

A second element of elasticity is that additional housing land, known as "windfall sites", can become available, even though they have not been marked as such on the development plans. In Surrey, in the five years up to 1988, nearly four-fifths of the land used for new housing came *from this* source.

Distortions in housing are second to labour market rigidities in losing jobs

Third, there are "brownfield sites", which consist of land already used for commercial or other urban purposes, but which becomes profitable to transfer to residential use as housing land prices rise.

Nevertheless, the planning system has restricted the supply of building land. The conclusion of the DoE study is that land supply controls of all types have increased house prices in the south-east by 35 to 40 per cent, and by lower but still substantial amounts *in areas such as* Yorkshire and Humberside.

The table shows the way this has worked. In Reigate and Wokingham – two semi-urban areas just outside London – plot values in 1990 were around half those of corresponding house prices. Without planning restrictions, the land would still have some value, which *would be determined by what* it would be worth for uses outside housing. (The *study identifies this with the economists'* idea of "opportunity cost" – the value that the land has in its next best use.)

It would be tempting to regard the next best use as being farming land, where the value is often one-thirtieth or *one-fortieth of what it is when* housebuilding is allowed. But the authors avoid this route because of the cost of preparing land for housing purposes.

Instead, they estimate what a similar amount of land would cost in Barnsley, where the scarcity premium is regarded as low. This establishes a reservation price for what the land might fetch if there were no prospect of planning permission for development or redevelopment. This reservation price is subtracted from the actual price. The difference may be regarded as an esti-*mate of the effect of the scarcity* of housing land on house prices. It is put at 36 per cent for Reigate, 42 per cent for Wokingham – both just outside London in the south-east – and 16 per cent even for Beverley in eastern Yorkshire.

The planning system affects the form as well as the amount of new developments. Because of the *rising price of* land, there has "been a shift away from the production of bungalows and semi-detached houses towards *flats* and terraced houses". Detached houses have also been designed to achieve high densities. So far as the system discourages development such as the cliff-top bungalows that disfigure the landscape east of Brighton, that is to the good. But the overall effects on house and land prices are less desirable.

The DoE study does not make policy recommendation. But it is clear that any attempt *at curbing future increases* in land values would have to be at a national level. Within even a large area, such as the south-east, there is a great deal of substitution between different districts. For instance, an increased release of land in Wokingham would do little to curb land prices there, as new land would be snapped up by developers denied access elsewhere. The extra land would have to be *available* throughout the south-east.

Ministers have, in their reaction, put too much emphasis on the fact that land for housing is physically available, which it always is for those willing to pay market prices. The question is whether that price is unnecessarily inflated by ill-conceived restrictions.

**The Relationship Between House Prices and Land Supply, Gerald Eve, Cambridge Land Economy Dept, HMSO 1992*

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Commission plan a threat to UK export finance

From Dr Keith Hampson MP.

Sir, Little *noticed* by the vast majority of UK exporters, a far-reaching European Commission communication is in danger of slipping through this summer which will put them at a severe disadvantage compared with their European competitors.

The Commission understandably wants to eliminate distortion of trade within Europe by cutting government involvement in that vital safeguard against bad debts: short-term credit *insurance*. The effect of the competition directorate's latest draft, however, will be to ban a large part of the present arrangements whereby the UK government gives reinsurance support in certain critical areas of short-term risk, helping to protect more than £15bn UK exports each year, including luxury cars, textiles and advanced electronic equipment.

At best the ban will mean extreme uncertainty for exporters while UK credit *insurers* restructure their reinsurance. *At worst it will mean they will* have a substantial part of their *credit insurance support withdrawn* altogether. This will affect not only export orders but jobs.

It is not that the UK is again being difficult about its European relationships. It is that our system of short-term credit insurance is significantly different from theirs since the private market now provides virtually all credit insurance support in the UK. Ironically, we have gone further than anybody in removing government support; yet the Commission's proposals will damage the remaining necessary government reinsurance in certain *areas while allowing* the French and German governments to continue to provide large-scale support for their monopoly state providers.

It is to be hoped that the British government will once again stand firm.

Keith Hampson,
member of trade and industry select committee,
House of Commons,
London, SW1A 0AA

Employment: faulty predictions and outdated welfare system

From Dr John Wells.

Sir, The decline in male employment since 1970 has been nothing like as great as portrayed by your editorial, "*The wages of inequality*" (July 5), which used data on employees *only* – thereby ignoring the rapid growth in self-employment as well as in those on training schemes.

Comparing 1970 and March 1994, the male work-force in employment declined from 15.9m to 13.7m, while for women there was an increase from 8.8m to 11.6m. Comparing 1970 with 1990 – years more similar in relation to the business cycle – the decline in male employment from *15.9m* to 15.2m was quite slight.

The prediction by Patricia Hewitt, of the Institute of Public Policy Research, that "by the end of this year women will already be half the British workforce" is clearly faulty – and is likely to remain so unless women completely forswear child-care in the home and men withdraw from economic activity.

Even less persuasive is her advocacy of work-sharing as a *solution to unemployment* – rather than putting the unemployed to work to satisfy unmet needs for goods and services. Thus, the faster is productivity growth, the greater is the scope for meeting unmet needs through utilising the UK labour force more fully.

Work-sharing, except on a *voluntary basis, is a counsel of* despair and not a politically attractive policy option.

John Wells,
faculty of economics and politics,
University of Cambridge,
Sidgwick Avenue, Cambridge

From J M Harper.

Sir, Your thoughtful leader, "*The wages of inequality*", *did* not go deep enough.

The welfare system we have today was essentially the creation of the distinguished economist Sir William Beveridge, later Lord Tuggal. His report, signed by him alone, was published as a white paper in 1942. Its main feature was a scheme of social insurance against "interruption and destruction of earning power and for special expenditure arising at birth, marriage or death".

Beveridge reflected the national mood of the time. The *country was united by war* and determined to avoid a repetition of the enormous social damage done by the Great Depression of the 1930s. The structure he conceived has achieved its original purpose handsomely. It is a tribute to the underlying thinking that it has lasted more than 50 years. *But it is now out of date.*

The mood and the environment of the 1990s are totally different. We have four decades of boom/bust cycles behind us and yet another developing round us. General levels of affluence and the expectations of beneficiaries are two or three orders higher. We are learning the hard way the *political and economic limits* to what modern society can and will support by way *of benefits*; and at the same time that a significant degree of unemployment may be endemic. The proportion of society which is past earning age and therefore past contributing to the system has markedly increased. The fundamentals and the objectives of social insurance require a complete rethink.

We need another Beveridge, to design a system for the 21st century. *Nothing short of this* will get us anywhere.

J M Harper,
11 Lullington Close,
Seaford, E Sussex BN25 4JH

No virtue in a protectionist bloc

From Mr W A N Jones.

Sir, Joe Rogaly debases the whole discussion and damages his case by the wholly unfounded accusation that Euro-sceptics (not the word he uses) wish to erect "a huge stone wall" between the UK and Europe ("The centre of attraction", July 5). This is untrue and I challenge him to justify this gross exaggeration.

What many of us are desperately worried about is that the UK should be part of an increasingly protectionist bloc which resists change and which will increasingly create unnecessary conflict with the inhabitants of other parts of the world. The most fully developed policy of the EU is the Common Agricultural Policy. This has wasted resources on a scale that would pass belief if it had not occurred and its restrictive *nature stultifies* attempts to rebuild economic relationships with the countries of eastern Europe and with the states which until recently formed part of the USSR.

There is logic and virtue in arrangements which would allow the citizens and traders of the European Union to trade freely with their counterparts overseas. There is no logic, nor virtue, in rules which give preference to a few nations near one another in western Europe and which put the rest *of the world on the other side* of the trade barrier – along that road lies future conflict on a global scale.

W A N Jones,
Northfield,
Woodfield Lane,
Hatfield, Herts AL9 6JJ

Stranded, but never short of valuable advice

From Mr Philip Cranford Smith.

Sir, Mr Peter Barnes (Letters, July 2/3) is right to emphasise the importance of correct technique in make a proper dry Martini. I must point out also the indigenous and often overlooked secondary value of the constituent ingredients.

Stranded in the desert, and in desperate need of assistance, one would need only to produce the requisite bottles for five Americans instantly to appear – all *telling* you where you are about to go wrong.

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FINANCIAL TIMES
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Thursday July 7 1994

Leader for the WTO

When almost 120 governments signed the Uruguay Round in April, they hailed it as the most sweeping reform of the world trade system since the General Agreement on Tariffs and Trade was established 47 years ago. But the gains promised by the round will be realised only if the impetus needed to agree on the grand design is now applied with as much determination to its execution.

Critical to the success of the endeavour will be the choice of a leader for the World Trade Organisation, which is due to succeed the Gatt early next year. The WTO will have a formal institutional structure, clearer procedures and stronger dispute settlement mechanisms. It will also enjoy a far wider remit, embracing such issues as trade in services and intellectual property rights.

However, the organisation's enhanced profile will be more than matched by increased responsibilities. The most pressing is to implement the Uruguay Round. As well as holding governments to their commitments to open trade in heavily-protected sectors such as agriculture and textiles, that will involve developing a multilateral regulatory framework for areas such as services and direct investment.

In tackling many of these questions, the WTO will inevitably find itself encroaching on domestic policies, long regarded by governments as their sovereign preserve. The potential for political frictions is clear. It will almost certainly be heightened if the organisation yields to demands that it plunge into contentious issues, such as the links between trade and labour standards and environment policy.

Challenges ahead

These challenges must be addressed against a background of rapid change in the world economic order. Many developing countries have overcome former suspicions of the free market to embrace liberalisation. Meanwhile, industrialised powers have grown defensive and equivocal in their commitment to the multilateral trade system, of which they were once the main proponents. The system's integrity is further threatened by the risk of financial instability posed by capital flows and by the formation of regional economic blocs, which may try to manipulate multilateral rules to their advantage.

Much of the onus for charting a course through these turbulent cross-currents will fall on the WTO and its head. What should be the latter's priorities – and personal qualities? Obviously, the organisation needs to be efficient and well-run. However, its head need not become deeply immersed in its administrative and technical affairs, many of which can safely be delegated. Nor should the boss be closely involved with the WTO's disputes mechanisms, which will be judged largely on their impartiality and independence.

Coherent leadership

By far the biggest task will be to give coherent direction and leadership to world trade policy. That calls, first, for clear strategic vision and an ability to set firm long-term objectives for enhancing global economic welfare. Second, it requires the personal authority to persuade governments that it is in their collective interest to put these goals above the narrow pursuit of national advantage. The third prerequisite is political skills, combining sensitivity to the differing domestic pressures on WTO members with a flair for forging common ground between them.

The WTO leader must also command wide international confidence. For any powerful member to try to impose a candidate would undermine that goal. Above all, Europe, which has provided every Gatt director-general, should not assume it has a special claim on the WTO post. Nor does Europe's current introspection commend it as a recruiting ground.

Of the candidates declared so far, President Carlos Salinas of Mexico appears to match up most closely to the requirements of the job. However, he has still to say how he would tackle it, while others may yet enter the race. If the WTO is to get the leadership it needs, it is important that the choice of contenders be as wide as possible. They should also be encouraged to state clearly the agenda they would follow and how they propose to put it into effect.

New directions for the BBC

The government's white paper on the British Broadcasting Corporation, published yesterday, sets out two aims. The BBC should continue to be a public service broadcaster "serving the nation" and it should be equipped to compete in the revolution under way in media industries worldwide.

These are appropriate, if ambitious goals. The BBC is an institution of great cultural and political significance; potentially, it is also a large commercial asset. Prescriptions, however, are not easy. Technological changes are eroding the barriers between television, telecommunications and information-processing; there is no neat formula to spot or to nurture winners.

Moreover, the government's record of media regulation has in recent years been poor. Its piecemeal approach has spawned anomalies and unworkable rules, notably the 1990 Broadcasting Act, intended to govern ITV's actions for a decade, but already partly jettisoned. The patchy regulatory regime governing satellite and cable television is also the subject of much concern.

Given that history, the government is sensible to limit its main thoughts on the BBC to a five-year horizon beyond 1996, when the current charter expires. There will then be a further review about BBC funding, to take the corporation to the end of a new 10-year charter in 2006.

The main recommendation is that the BBC should keep the licence fee – a flat rate payment by all owners of television sets – as the main source of funding its public services at least for the first five-year period. The government has again concluded that the fee, although "an oddity" is the least bad way of hypothecating public funds to the BBC to enable it to make and broadcast a mix of programmes distinct from those on offer by the commercial channels.

Unaddressed problem

The unaddressed problem is that the licence fee cannot last indefinitely; at some point, a falling share of the audience will make such a universal tax unsustainable. It may well be optimistic to imagine that it can be sustained for the next seven years.

The second flange of the government's strategy is to urge the BBC to develop alternative sources of income, especially in the rapidly growing world of international broadcasting, but also to an unspecified extent in the domestic cable and satellite market. The BBC, says the white paper, "should be able to evolve into an international multi-media enterprise". The government approves the corporation's recent spate of alliances with the private sector and plans to repeal those parts of the 1990 Broadcasting Act which tie it down.

Tricky questions

Those steps are the right ones for the BBC, but it is not clear that the government has recognised just how many tricky questions they will raise. Although the BBC is told that it must keep separate its commercial and its publicly funded accounts and that it must trade fairly, it can only be a matter of time before it is challenged by its private sector competitors for unfairly cross-subsidising commercial services. At the same time, if the BBC really wishes to exploit its newly sanctioned commercial freedoms, it will bump regularly and hard against the government's borrowing limits, by which it is still bound. Nor is it likely to be entrepreneurially fleet of foot, in a world dominated by the likes of Mr Rupert Murdoch and Mr Ted Turner, when every deal has to be approved in Whitehall.

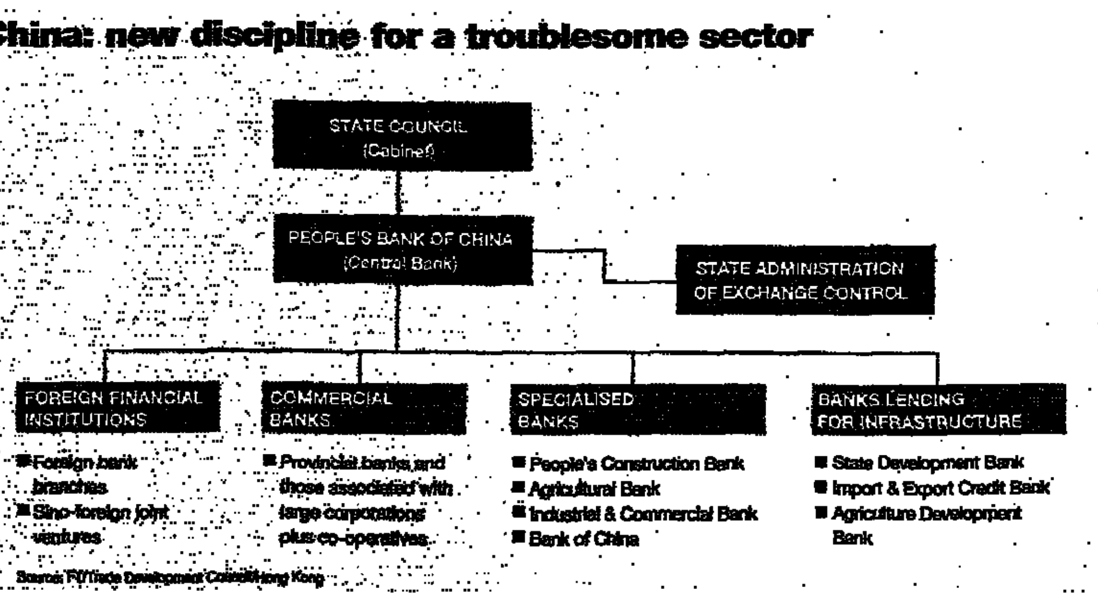
The obvious question, ducked in the white paper, is why the BBC should not be steered towards the private sector, there to engage freely in the international market-place, much as, say, privatised British Airways, has been able to do.

The privatisation route is, of course, not without difficulties. There would still be a need for public finance for truly non-commercial broadcasting and problems exist in funding by both advertising and subscription, although these are not insuperable.

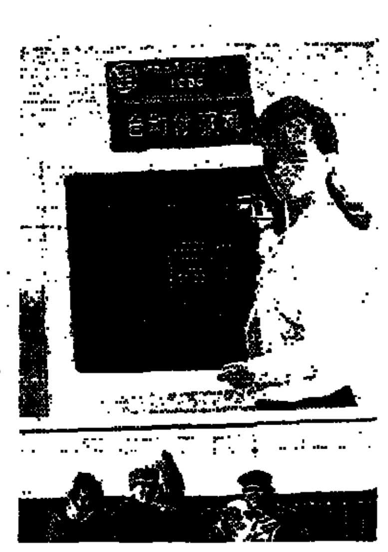
What yesterday's white paper really does is to establish two BBCs in uneasy harness with each other, one maintaining a familiar public service, the other driving hard into global markets. Eventually a choice will have to be made, but the government lacks the courage to make it now.

Banking reform in China: new discipline for a troublesome sector

The old China: a street cobbler in Beijing



Source: FT/Trade Development Council/Hong Kong



The new China: automatic cash tellers in Beijing

From abacus to automation

China is embarking on an ambitious programme to overhaul its financial system, says **Tony Walker**

China has at last begun the tortuous process of reforming its unruly financial sector with the referral of a new central bank law to the standing committee of the country's parliament.

Among China's plethora of new laws and regulations guiding its economic transformation, few items of legislation are more important. Not only does the legislation seek to redefine and strengthen the People's Bank's supervisory role over the banking system, it also makes clear that the bank's primary responsibility is to lead the fight against inflation.

China, in its efforts to speed its integration with the world economy, is seeking to build a central bank with the authority to match that of the Federal Reserve of the US or Bank of Japan. At the same time, it intends to reform its debt-burdened commercial banks along international lines.

That, at least, is the plan; but an enormous effort is required to convert theory into practice in a financial system in many ways still rooted in the age of the abacus. Among the most pressing tasks facing reformers is to end the central bank's traditional role as milch cow for loss-making state enterprises. Mr Di Weiping, a deputy director of the bank, says that under the new charter the People's Bank would be uncompromising in its fight against inflation. "We need a further tightening of money supply growth," he says. "We are not going to compromise with state enterprises."

Those fighting words reflect a newfound zeal among central bank officials operating under new rules and with high-level political backing – senior vice-premier Zhu Rongji is also People's Bank governor – but it is early in the bank's transformation to a western-style central bank, and political counter-pressures are certain to build.

As the state sector sinks further into the red in what is proving a fairly brutal transformation from a state-controlled economy to a market-driven system, so will demands intensify for an easing of credit. Indeed, there have been indications in recent weeks of a loosening of the purse strings, with funds being made available to keep faltering enterprises afloat.

Since the Chinese Communist party's policy-making central committee gave approval last November for sweeping changes to the financial system, China has moved ahead fairly quickly on reforms aimed both at revolutionising the People's Bank's role, and at removing responsibility for lending for infrastructure projects from the four specialised commercial banks. These institutions, which account for 90 per cent of the country's banking business, include the Industrial and Commercial Bank, the Agricultural Bank, People's Construction Bank and Bank of China.

Lending for China's vast infrastructure requirements, including such projects as the U$10bn Three Gorges dam on the Yangtze, will be vested in the new State Development Bank and Agricultural Development Bank (see accompanying article).

The wide-ranging banking reforms will also have profound implications for western banks seeking to extend their reach in the China market but frustrated by the difficulties of penetrating an archaic, inward-looking system. At present, the 100 or so branches of foreign banks in China are restricted to foreign currency business on behalf of joint ventures. But the "commercialisation" of China's banking, allied with international pressure on China to open its services sector – Beijing's desire to enter the General Agreement on Tariffs and Trade is being used as a lever by the US and others – will facilitate greater foreign involvement in the financial sector, although progress will be slow.

Chinese officials acknowledge that their task is awesome, given that the banking system has changed little in the more than four decades since the Communists took over in 1949. At the People's Bank, for example, plans are in hand to reorganise the bank from "top-to-bottom"; it has 170,000 employees and 3,000 branches and sub-branches, many of which will be redundant under the bank's new charter. The streamlining is intended to enhance the bank's authority over monetary policy and its supervision of financial institutions both at the centre and also in the provinces.

Further evidence surfaced this week of the extraordinary difficulties facing the central bank in imposing discipline on an unruly financial sector, including, it seems, its own branches. According to the official Business Weekly newspaper, the Shenzen branch in southern China of the People's Bank went ahead last year and approved the establishment of four investment funds in defiance of regulations that only head office in Beijing had the right to approve such funds.

People's Bank officials – who have been studying the German Bundesbank, Bank of England, Singapore Monetary Authority, Bank of Japan and US Federal Reserve, among others – plan to establish about a dozen regional centres with increased responsibilities to impose much-needed discipline on local financial institutions. In this respect, the Chinese central bank's evolving structure will resemble that of the Federal Reserve – although the People's Bank will have nowhere near the same degree of statutory independence as the American model.

Independence was a key issue among Chinese leaders in their deliberations about an appropriate relationship between the government and the central bank. In the end, they decided that the People's Bank should be subordinate to the state council (cabinet), but they also sought to define clearly the bank's responsibilities to resist possible political interference.

Any dream of real independence for China's central bank may remain just that. In the opaque Chinese system, where most important decisions are taken far from the public gaze, the political clout of the top People's Bank official will be the critical factor rather than the wording of the new charter. The redoubtable Mr Zhu has made it clear that his role as central bank governor is temporary. His successor, who will be appointed by the state council, is unlikely to match his seniority.

For all the reservations of western economists and bankers about China's ability to manage its way through a minefield of new financial reforms, there are those who give Chinese reformists the benefit of the doubt in this testing phase.

Mr Peter Bottelier, head of the World Bank's resident mission in Beijing, praises measures already adopted this year. These included, principally, unifying competing exchange rates, thus abolishing the managed official rate, as a vital step towards full convertibility of the Chinese Yuan by the end of this century.

"I have not seen currency reform introduced so smoothly and with such success," said Mr Bottelier. "They pitched it at the right rate [about U$1 = Yuan8.7 compared with the previous official rate of Yuan5.7], and they kept monetary policy very tight, which is exactly what the currency reforms needed."

In turn, currency unification opened the way for the establishment of an interbank market which began trading on April 1. The currency market in Shanghai appears to be operating relatively smoothly, although foreign banks were unhappy at being excluded for the time being.

Currency unification, an interbank currency market linked electronically with some 20 cities nationwide, improvements under a World Bank-sponsored programme to China's archaic payments clearing system, and eventually the establishment of a short-term money market, are part of an effort to bring the banking system into the 20th century.

But problems abound, including a singular lack of automation in the banking system. Moreover, according to a 1992 report on China's banking system prepared by Capital Intelligence, a Cyprus-based consultancy, "modern-technology-based internal management programmes, such as asset and liability monitoring, accounting and financial information systems, forecasting and strategic planning are hardly available".

The difficulties of transforming China's dominant four specialised banks are thus immense, not least because these institutions are weighed down by a huge burden of "problem" loans. No reliable statistics are available for what in the west would be described as "non-performing" or "doubtful" loans. But a clue to the extent of the problem was given by China's State Statistical Bureau, which reported that at the end of the March quarter nearly 50 per cent of the country's 11,000 medium and large-sized state enterprises were in the red.

Among China's myriad new laws and regulations is a new accounting law. It aims to help establish new classifications for "problem" loans which accord with international standards. These would help banks to satisfy criteria laid down for bad debt provision and ultimately open the way for much-needed corporatisation – a Chinese half-way house to privatisation – of the unwieldy banking system.

These and other gains could easily be squandered later under political pressures if the government bows to demands from the state enterprise lobby to maintain its access to cheap credit.

China's reformers know that financial sector reform, of which credit controls are the key element, cannot succeed without strict discipline being imposed. While they have made a respectable start, changes to the financial sector have some way to go before they catch up with China's other market reforms. At stake are China's considerable ambitions to integrate itself with the international financial system.

Sturdy pillars of reform

Mr Yao Zhenyan, director of the new State Development Bank, feels that he is carrying a "heavy burden" in the bank's first months of operation.

The SDB, he says, in fulfilling its target of lending Yn80bn ($9.3bn) this year for infrastructure projects, will be responsible for a significant proportion of China's total credit plan. The bank, together with the Export and Import Bank and the Agriculture Development Bank, are pillars of China's banking reforms. Their establishment is regarded by World Bank and IMF officials as a crucial step in the reorganisation of China's banking sector.

Lending for infrastructure had long been a millstone around the necks of China's specialised banks. The country's demand for capital to fund its infrastructure requirements virtually dictated the new institutions' formation.

Mr Yao said that the SDB, which is modelled on the Development Bank of Japan, would concentrate lending in power generation, transport and telecommunications – sectors where funding requirements are heaviest.

The Agriculture Development Bank, which is expected to begin operations later this year, will shoulder a greater burden of lending for construction, including of roads and railways, as well as support agriculture-related projects such as water conservancy.

The SDB president said his bank would be run according to commercial principles. He was adamant that it would not assume responsibility for the non-performing "policy loans" of the specialised banks. "We say that old problems should be solved through old channels. New problems should be dealt with using new methods. If we took over the problem loans, our bank would go bankrupt in three years."

The establishment on July 1 of the Export and Import Bank of China is another example of changes in the financial system. China, which is striving for a niche among the world's top 10 trading nations, is signalling determination to compete more aggressively.

Mr Tong Zhiguang, chairman and a former vice-minister of foreign trade, said that the bank's activities would be "critical to ensure that China's exports sustain momentum". He indicated that the bank's priorities would include increasing exports of machinery and electronics, which presently account for a quarter of China's average annual exports.

"In the long run," Mr Tong said, "our bank will facilitate China's industrial restructuring that gives rise to more export-oriented industries." China's banks could hardly be accused of lacking direction.

OBSERVER

Opinionated Poles

■ Who is the most popular world statesman in Poland today? Why, none other than Bill Clinton, according to a poll conducted by CBOS, a leading Polish pollster.

Rather odd really, when you consider Clinton is less than whole-heartedly supportive of some Polish aspirations. The US president has declined to hold a press conference in Warsaw today, thus saving himself the bother of publicly repeating his "yes – but not just yet" response to Poland's plea to be allowed to join Nato.

The poll gives Clinton a 75 per cent approval rating – one point more than Margaret Thatcher but significantly less than the 87 per cent George Bush got in a similar poll in 1991.

Still, Clinton can bask in the glory of being more than twice as adored as his host, president Lech Walesa; he gets a measly 35 per cent. Even Nelson Mandela manages only 39 per cent; Boris Yeltsin gets 31 per cent.

And okay, polls lie – but they have their uses. This one at least can be waved by John Major's supporters when they get tired of hearing scurrilous suggestions of his greyness.

Major may not be *popular* in Poland – only 34 per cent of Poles like him – but at least he's (relatively) *big* – only 42 per cent of Poles can't identify him.

That's success: 62 per cent of the respondents are baffled when asked if they know who Silvio Berlusconi is. A bit like Italy perhaps: 100 per cent of Italians know Berlusconi is their prime minister – but how many know who he is?

Scriblerus club

■ Lord Hailsham, former Lord Chancellor, grows increasingly eccentric with age. His new book, *Values: Collapse and Cure*, about a spiritual crisis he underwent in 1992, is being produced in a facsimile of his handwriting, just as he presented it to his publisher, HarperCollins. Or maybe it saves on typesetting bills.

Still, for a man of 87, the handwriting is remarkably legible – even when in Latin.

Rum rationing

■ Dash it all, is no British naval tradition safe? Already under fire from the merchant shipping industry for allegedly being less than generous to ships flying the red ensign, from August 1 the government intends scuppering medium frequency Morse code, used for transmitting weather and navigational information.

The medium frequency is used by ships up to 250 miles distant from the coast. Mariners further out will still be able to tune into high frequency Morse messages, but the medium frequency will be retained just for search and rescue alerts.

This distressing move will annually save the Maritime Safety Agency the paltry sum of £200,000. Time for the one Morse message familiar to every school child: Dot-dot-dot dash-dash-dash dot-dot-dot.

Babbling Brooke

■ A further leak concerning prime minister John Major's cabinet reshuffle?

Peter Brooke – national heritage secretary – yesterday addressed the House of Commons on the future of the BBC. Opposition wags asked him why he hadn't made the statement three years ago. Brooke pointed out he was not then in government. Up piped Labour's shadow minister for vitriol, Dennis Skinner: "And you won't be soon."

Brooke merely added: "Ministers are here today, gone tomorrow." But the acid lives on forever.

Ungrim reaper

■ Pah! to all those profiles of South Africa's new finance minister. Christo Liebenberg is clearly a man of greater substance than they imply, as is revealed by a 1992 edition of the house magazine of Nedbank, the bank where he worked from 1952.

First job: "Sweeping the floor in local barber shop for pocket money at the age of 15."

First job with Nedbank: "Mail delivery and stamp licking."

Philosophy of life: "You will reap whatever you sow."

Likes: "Quality, expertise, professionalism. . . and pretty girls!"

Mail-shot

■ No wonder the media seems to have fallen in love with Tony Blair, Labour's leader-in-waiting. He is good-looking, knows his sound-bites and, even better, he lives next door to some of the biggest media types, according to a report in Nigel Dempster's Daily Mail gossip column yesterday.

However, there was one name missing from Dempster's roll-call of Blair's famous media neighbours; step forward Paul Dacre, editor of the Daily Mail.

Stone me!

■ An astute letter in yesterday's Guardian congratulated Prince Charles on his wish, when crowned Charles III, to amplify his role from being defender of the faith, to being defender of all faiths. It then posed the awkward question: "Does he know the punishment for adulterers under Islamic law?"

You just get told off a bit – don't you?

Kicked off

■ Ian Lamont of Yorkton, the stockbroker, reckons there are four main types of football: Association Football – a game for gentlemen played by hooligans; Rugby Union football – a game for hooligans played by gentlemen; Rugby League football – a game for hooligans played by hooligans; and American Football – a game for Americans played by Americans.

There is also of course Gaelic Football: a game for masochists played by the Irish.

FINANCIAL TIMES
Thursday July 7 1994

North Yemen close to victory in civil war as forces close on Aden

By Mark Nicholson in Cairo

North Yemeni forces seized two northern suburbs of the besieged city of Aden yesterday as their strangulation of the secessionist south appeared close to delivering victory in the two-month civil war.

Forces loyal to the government of President Ali Abdullah Saleh, based in the northern capital of Sanaa, have secured, after several days of fierce fighting, the south's second city of Mukallah. The North Yemeni forces have also taken the city's al-Rayan airport, critical to the southern airforce, and the south's sole oil producing operations at Masilah, east of Aden.

The civil war began in May when the former Marxist south Yemen seceded and yesterday the south lost immediate hope of formal recognition by its more powerful neighbours. In Kuwait, a meeting of Gulf states as well as Egypt and Syria, condemned the fighting and called for a ceasefire, but shied away from supporting the south's secession.

However, Sheikh Sabah al-Ahmad al-Sabah, Kuwait's foreign minister, said later that if fighting in Aden descended into "a tragedy", then "we will have to take our measures, and those are possibly recognition of the [southern] republic" – though the course of fighting threatens to leave little to be recognised.

Arab League officials are due to fly today to Sanaa in a further attempt to urge enforcement of United Nations ceasefire resolutions. But diplomats said they thought President Saleh was determined to see the war through to victory. "As Saleh makes more and more ground, he's less and less likely to want to stop," said a western official.

Witnesses quoted by news agencies in Aden said northern troops had won control of the heavily populated suburbs of Sheikh Othman and Mansoura, 8km north of the peninsula which houses the port and city centre. Fighting was continuing at the airport, between the northern forces and the city centre.

The International Committee of the Red Cross said in Geneva that humanitarian conditions continued to worsen. Fighting was so intense, it said, that Red Cross workers had been unable to repair damaged water wells, vital to a city of 450,000 three weeks without fresh water.

The committee also said two Red Cross-supplied vessels remained off Aden, unable to dock and unload medical and sanitation equipment for want of security guarantees. It added that hospitals were overcrowded in Aden, Mukhalla and Taiz, all in south Yemen, but said there were no accurate estimates of casualties after the past few days' heavy bombardment of Aden.

Canadian Occidental said in the group's Calgary base that its Masilah operation – which produces 160,000 barrels a day – had resumed pumping after a brief overnight closure between Monday and Tuesday "to test our shutdown mechanisms" and production continued "without any problem at all". The company said the Masilah area had come under northern control.

THE LEX COLUMN

Electric shocks

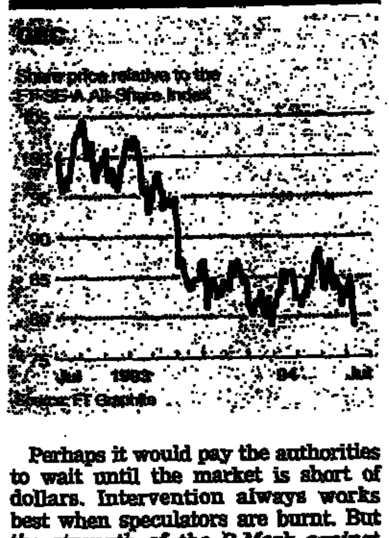
GEC is struggling to increase its earnings. Though the company warned last December that profits would not advance substantially, yesterday's flat full-year results took the market by surprise. There was no single factor behind the disappointment apart from the competitive nature of most markets in which GEC operates. Since that is not expected to change, the 8 per cent dive in the company's share price looks appropriate.

If GEC can wisely invest its £2.8bn cash mountain, earnings would of course move ahead strongly. But that is a big "if". Lord Weinstock, managing director, has been casting around for the right deal since his 1989 Plessey acquisition. Joint ventures with Italy's Finmeccanica and France's Thomson are in the offing but neither will absorb much cash. Marconi may be well-positioned for the much-heralded rationalisation of the European defence industry but it could take a long time to materialise.

The scope for strategic moves in GEC's other businesses is limited. Given that GPT's technology is intertwined with that of Siemens, it is hard to see GEC taking independent action in telecommunications. GEC Alsthom may spend some cash by taking equity stakes in power stations around the world but again the sums will not be large. Equally, the promised rationalisation of GEC's other businesses is welcome but may actually add to the cash pile.

Lord Weinstock is not inclined to take the alternative route of handing cash back to shareholders. His appointment for another two years at GEC's helm has put an end to that debate at present. But unless he can find the right deal, his successor will be under pressure to switch tack.

FT-SE Index: 2946.7 (-18.3)



Currencies

It almost looks as though leading industrial countries are willing the dollar to drop. After German officials proclaimed the lack of need for a rescue package at this weekend's Naples summit, the Federal Reserve yesterday missed an opportunity to raise interest rates aggressively following its Open Market Committee meeting. Yet this does not mean that governments can get away with a course of benign neglect. The pressures which have already produced two rounds of concerted intervention this summer have not gone away. They will almost certainly intensify if the summit ignores the currency issue.

Perhaps it would pay the authorities to wait until the market is short of dollars. Intervention always works best when speculators are burnt. But the strength of the D-Mark against other European currencies – yesterday the French franc again fell below its old intervention floor – suggests Germany cannot remain insouciant. Its European partners will soon complain about the effect on their own bond markets of a strong D-Mark.

Ultimately the problem has more to do with bonds than absolute exchange rates, which puts the US authorities in a quandary. Liquidity worries mean that if they raise interest rates to stabilise the dollar, they risk upsetting the bond market in the short term as much as if they do nothing. But bond markets will not recover till the inflationary spectre is laid to rest. Higher interest rates are thus inevitable despite the turbulence in their train.

Equity trading

The Treasury will be pleased if measures to discourage short-selling – backed yesterday by Mr Andrew Large, chairmen of the Securities and Investments Board – are introduced before it sells its remaining stakes in National Power and PowerGen. The government's last foray into the equity market, the BT3 share offer, was blackened by allegations that the share price had been driven down by short-sellers. Eurotunnel and Wellcome have made similar complaints.

Since short-selling is an integral part of modern securities markets, an outright ban would be a retrograde step. But the case for greater transparency is strong. The hardline option would be to demand immediate publication of all short sales going into a secondary offer. The perpetrators could then be denied an allocation of shares. Yet publication of the aggregate short position across the market might do just as well. The market would then be able to see what lay behind a falling share price. Speculative short-selling could not be used as a convenient scapegoat for a badly-timed deal.

Such a publication requirement, perhaps combined with a US-style "uptick rule" which allowed short-selling only when the last movement in the shares was up, would go a long way towards solving the problem. The move to five-day rolling settlement planned for next year might also help by allowing companies to see changes in their share register much faster than the current system allows.

Dixons

Although its share price scarcely reflects it, Dixons has made great strides in recent years. The company has done its best to extricate itself from disastrous diversifications. More stringent management has been introduced and some progress has even been made towards providing half-way decent service in its shops. Dixons' accounts have been tidied up – despite it slipping £5m of gilts sales through the interest receivables line. Yet even these efforts may be insufficient to salvage its battered shares. Dixons may have turned itself into a reasonable business. Unfortunately, its main market seems to be turning against it.

Electrical retailing has always been a tricky game thanks to severe price deflation. The added complication now is that too many others want to play. Capacity is likely to increase sharply, making sales increases harder to achieve. Dixons is itself accelerating its out-of-town opening programme. Its chief rival, Comet, is doing the same. For some perverse reason, cossetted regional electricity companies are also trying to become rough-and-tumble shopkeepers. That suggests the industry's margin structure will continue to be squeezed – especially now that warehouse clubs are testing new price floors.

The only way to escape the capacity crunch would be to diversify. But given Dixons' history, that might not be well received. Dixons' yield, which has risen above the market average, offers some attractions. But it hardly compensates for the risks.

Monetary reform

Continued from Page 1

representation was narrow and it did not even have a secretariat.

The experts said the task of devising and implementing a reform of the global financial system should be entrusted to the IMF, a global institution that had "much of the necessary expertise."

They said the IMF should concentrate on its global monetary responsibilities and stop acting as a development agency – a role in which the World Bank had a greater comparative advantage. The Bank still put too much emphasis on the public sector as an engine of development and should shift resources to the International Finance Corporation, its small affiliate that focuses on the private sector.

The commission also recommended sizeable staff cuts at the Bank and a rationalisation of its activities and those of regional development banks, which would reflect the much greater availability of private sector equity and bond finance.

US pledges to help Baltic states over Russian troops

By George Graham in Riga, Latvia

President Bill Clinton yesterday promised US support for fresh efforts to bring about the withdrawal of the last Russian troops from Estonia, Latvia and Lithuania.

But he warned the citizens of the newly independent Baltic states that they must show tolerance to the ethnic Russian minorities in their populations.

"Never deny to others the justice and equality you fought so hard for and earned for yourselves. Freedom without tolerance is freedom unfulfilled," Mr Clinton said in a speech to thousands of Latvians gathered in Riga's Freedom Square.

Mr Clinton expressed confidence that Russia could resolve its remaining disagreements with Estonia, the only country with which it has not agreed a troop withdrawal plan, if both sides showed flexibility. "I think the differences are narrow and will be bridged," he said. Russian troops have already pulled out of Lithuania and are due to quit Latvia by August 31. Negotiations with Estonia, however, are bedevilled by the status of ethnic Russians, including military pensioners.

Although Mr Clinton insisted there was no link between the citizenship rights of Russians living in Estonia – an issue he discussed with President Boris Yeltsin by telephone before the Riga meeting – and the withdrawal of Russian troops, his strong call for tolerance was seen as a gesture to Mr Yeltsin's concerns.

The status of the Russian minority is fiercely debated in all three Baltic countries, and is at the centre of heated talks on a new Latvian citizenship law.

In an effort to smooth the way, Mr Clinton yesterday chipped in extra US money to resolve some of the outstanding issues. Besides promising $10m for the three-nation Baltic peacekeeping battalion, he doubled the money available to help Latvia dismantle an unfinished early warning radar station at Skrunda.

More than cash, Mr Clinton brought a symbolic promise of US support. "The chain that binds our nations is unbreakable," he told a cheering crowd.

Lionel Barber adds from Brussels: The European Commission said yesterday it had completed negotiations for a free trade agreement with Estonia, paving the way for a free trade area for industrial goods with all three Baltic republics from next year.

The deal, subject to council of ministers' approval, involves the EU dismantling tariffs and quotas. Estonia will remove its barriers by the same date, while Latvia and Lithuania will benefit from transition periods of four and six years respectively on sensitive products such as textiles.

The other provisions of the agreements are modelled on pacts concluded with the Czech Republic, Poland, Hungary, Slovakia, Bulgaria and Romania.

UK industry shows steady expansion

By Gillian Tett and John Griffiths in London

Further evidence that the UK industrial recovery is becoming broadly based without overheating emerged yesterday after official figures showed that output expanded modestly in May.

Car manufacturers, meanwhile, received a welcome boost after new vehicle registrations surged in June, suggesting that UK car sales will rise to 2m this year for the first time in four years. New car registrations were 18.3 per cent higher than a year earlier and commercial vehicle registrations were up 24 per cent.

The figures provided a favourable background to yesterday's monthly meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England, which was thought to have decided against a change in bank base rates from 5.25 per cent.

The Central Statistical Office said that overall UK industrial output grew by a seasonally adjusted 0.3 per cent in May, compared with April, and rose to its highest level for almost four years. This monthly growth was lower than in April, when output surged by 1.6 per cent compared with March.

But the data were in line with forecasts in the City of London, and analysts welcomed the figures as a sign that the recovery was proceeding steadily, without expanding so fast that it threatened to fuel inflation. Measured on a three-monthly basis, overall industrial output rose by 1.3 per cent in the three months to May, compared with the three months to February.

Although this rise was boosted by a strong performance from the North Sea oil and gas sector, manufacturing also showed a healthy 1.2 per cent growth, quarter on quarter. As a result, the CSO yesterday said it believed that UK manufacturing was growing at an annual rate of 4.5 per cent, up from its earlier trend estimate of 4 per cent.

The Treasury welcomed the figures as "confirmation of the story of broad based recovery in manufacturing we have been seeing this year."

The Treasury's latest monthly monetary report, released yesterday, also echoed this upbeat tone, noting that "the monthly indicators were again consistent with steady recovery".

The most encouraging aspect of the figures, analysts said, was that they showed that investment goods, such as plant and machinery, and intermediate products, such as raw materials and components, were playing an increasingly important role in recovery.

Although the UK recovery last year was largely consumer led, last quarter's data showed that the output of investment and intermediate industries rose faster than in the consumer product industries.

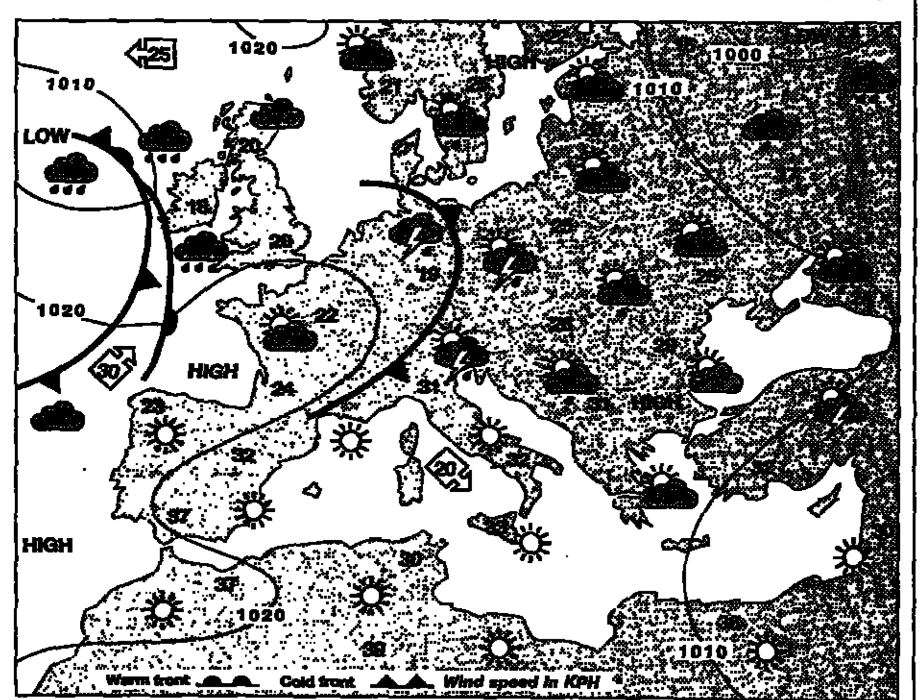
FT WEATHER GUIDE

Europe today

The British Isles will be overcast and rain will move in from the west as a low pressure area approaches. There will be thunder showers in the Low countries, Poland and Austria. This afternoon conditions will gradually improve over the Benelux. Switzerland will be sunny and dry. Northern France will be partly cloudy and further south it will be sunny. Spain, Portugal and Italy will have plenty of sunshine and southern Spain will have temperatures above 35C. The Balkans will have sunny spells interspersed with thunder showers. Greece will have sunny spells. Scandinavia will be cloudy. The southern regions will have above normal temperatures.

Five-day forecast

A series of depressions will cross the British Isles and north-western Europe. It will be showery, especially over the British Isles and temperatures will rise to seasonable levels. Eastern Europe will have long sunny spells and showers.
Thunder showers will be more frequent over the Balkans, especially this weekend.
Southern Scandinavia will have rain at times, while central regions will have sunny intervals.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	cloudy	32	Caracas	cloudy	27	Faro	sun	31	Madrid	sun	30	Rangoon	rain	31
	Celsius		Belfast	rain	18	Cardiff	rain	17	Frankfurt	shower	20	Majorca	sun	31	Reykjavik	fair	17
Abu Dhabi	sun	38	Belgrade	fair	29	Casablanca	sun	30	Geneva	fair	25	Malta	sun	34	Rio	shower	28
Accra	fair	30	Berlin	thund	21	Chicago	thund	33	Gibraltar	sun	31	Manchester	cloudy	19	Rome	sun	30
Algiers	sun	33	Bermuda	fair	32	Cologne	thund	18	Glasgow	cloudy	20	Manila	rain	31	S. Frsco	sun	29
Amsterdam	shower	17	Bogota	shower	18	Dakar	fair	28	Hamburg	shower	19	Melbourne	fair	20	Seoul	rain	27
Athens	sun	33	Bombay	rain	29	Dallas	sun	35	Helsinki	fair	20	Mexico City	fair	22	Singapore	rain	31
Atlanta	thund	32	Brussels	shower	17	Delhi	cloudy	35	Hong Kong	shower	31	Miami	shower	34	Stockholm	fair	25
B. Aires	fair	9	Budapest	shower	28	Dubai	sun	42	Honolulu	fair	31	Milan	sun	30	Strasbourg	fair	23
B.ham	cloudy	19	C.hagen	shower	20	Dublin	rain	17	Istanbul	sun	30	Montreal	fair	29	Sydney	fair	22
Bangkok	rain	34	Cairo	sun	37	Dubrovnik	sun	33	Jakarta	shower	32	Moscow	shower	17	Tangier	sun	29
Barcelona	sun	27	Cape Town	sun	17	Edinburgh	cloudy	19	Jersey	cloudy	17	Munich	shower	22	Tel Aviv	sun	34
									Karachi	cloudy	33	Nairobi	shower	24	Tokyo	shower	30
									Kuwait	sun	45	Naples	sun	32	Toronto	thund	30
									L. Angeles	sun	24	Nassau	shower	32	Vancouver	sun	22
									Las Palmas	sun	29	New York	cloudy	34	Venice	sun	28
									Lima	cloudy	19	Nice	sun	26	Vienna	shower	23
									Lisbon	sun	24	Nicosia	sun	34	Warsaw	fair	28
									London	fair	20	Oslo	fair	26	Washington	fair	35
									Lux.bourg	fair	19	Paris	fair	20	Wellington	windy	11
									Lyon	sun	22	Perth	shower	19	Winnipeg	shower	22
									Madeira	fair	26	Prague	thund	21	Zurich	fair	22

IN BRIEF

Péchiney chairman to step down

Mr Jean Gandois, chairman of Péchiney, said he would step down from the state-owned aluminium and packaging group and stand as a candidate to head the Patronat, the French employers'federation. Page 18

US thrifts to merge
The two largest thrifts in the New York/New Jersey metropolitan region – Dime Bancorp and Anchor Bancorp – announced plans for a $1.1bn stock-swap merger, the biggest move yet in the consolidation of the New York area thrift business. Page 20

John Labatt in Mexican deal
John Labatt, the Canadian brewing and entertainment group, has joined Femsa, Mexico's biggest beverage company, in a North American beer alliance. Page 20

Mixed reactions in Australia
Australia's Western Mining Corporation's decision to buy into Alcoa's international bauxite/alumina-related operations at an effective cost of about A$1bn (US$700m) has prompted mixed reactions. Page 20

Derivatives in the spotlight
The issue of how best to police derivatives markets has been exercising the minds of regulators, bankers and end-users for several years. A recent arguement is that not only have regulators got it wrong, but that derivatives specialists at banks have largely got it right. Page 19
The US Securities and Exchange Commission is hoping a voluntary agreement among the big Wall Street firms to accept closer regulation of their derivatives activities will head off Congress' attempts to seek tougher regulation. Page 22

Mazda cuts costs
Mazda, the loss-making Japanese carmaker, plans to cut manufacturing costs by 10 per cent this year, and reduce over the medium term the number of models it makes. Page 19

Ina priced at L2,430
Shares in Ina, the partially privatised Italian insurer, were quoted at L2,430 as they made their debut on the Milan bourse yesterday, slightly above the L2,400 price set by the treasury for its sale of 53.5 per cent of the company. Back Page

Taunton Cider sparkles with 15%
Sharply lower interest costs helped Taunton Cider to a 15 per cent increase in full year pre-tax profits despite competition from low-price brands in the UK take-home cider market which held back turnover and operating profits. Page 23

GEC to rationalise portfolio
GEC intends to rationalise its portfolio of general manufacturing companies to improve its profitability and focus. Page 24

British Vita looks east
Western Poland, much of which was part of Germany before the second world war and retains excellent road, rail and canal links to the west, is rapidly becoming a preferred location for foreign investors. Among them is British Vita. Page 25

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Wella	950	+	10
Falls			
AG Ind & Verk	545	–	13
Asko	905	–	10
Holzmann	900	–	18
Varta	307.5	–	9
Zanders Feinpap	221	–	10
NEW YORK ($)			
Rises			
Caterpillar	104⅝	+	2⅝
Texaco	62⅛	+	1⅛
Falls			
Dime Bancorp	9½	–	1⅛
Morgan Stanley	65⅝	–	½
Salomon	45⅛	–	1⅝
PARIS (FFr)			
Rises			
AGF	455	+	20.5

Cred Nationale	490	+	20
EBF	910	+	65
Falls			
Bancaire Comp	457	–	18.5
Cred Lyon	458	–	27
UFB Locabail	381	–	19
TOKYO (Yen)			
Rises			
Shikoku Chem	625	+	40
Terumo	1220	+	200
Falls			
Bank Of Tokyo	1580	–	40
Dai-Ichi Kangyo	1890	–	40
Hitachi	1070	–	30
Nomura Secs	2420	–	40

LONDON (Pence) at 12.30.

Rises			
Assoc Brit Ports	280	+	9
Auto Security	112	+	5
Automare A	123	+	8
Britannic Assnce	421	+	14
Brit Airways	403	+	11
CRH	334	+	10
Dixons	188	+	19
Hewitt Walling	128	+	23
Severn Trent	504	+	14
Taunton Cider	162	+	12
Tottenham Hispr	94	+	5
Utd Friendly B	523	+	33
Falls			

Abbey National	396	–	11
Adam & Harvey	403	–	15
Aminex	63	–	7
Bespak	290	–	15
Betterware	91	–	6
Chubb	294	–	10
GEC	270	–	24
Morgan Crucible	326	–	16
Rothmans Uts	337	–	14
Takare	182	–	18
Unipalm	104	–	7
Waterhouse	33	–	3

Lufthansa back in the black midway

By David Waller in Frankfurt

A combination of cost-cutting and increased revenues helped Lufthansa make pre-tax profits of DM100m ($61.3m) in the first half of 1994, the airline said at the group's annual general meeting in Berlin.

This is the first time the airline has made a first-half profit in five years. Mr Jürgen Weber, chairman, said the second half-year was traditionally better than the first and he was confident the airline would pay a dividend for 1994. Ordinary shareholders last received a payout in 1989.

The chairman also spelt out details of the airline's privatisation plans, saying Lufthansa hoped to hold the first tranche of a planned two-stage rights issue this year, although the one-for-four issue of 7.6m new shares could be postponed until next year if market conditions were unfavourable. The second tranche is set to take place in the spring of next year.

The government, which holds a direct 51.4 per cent stake in Lufthansa, will not take up its entitlement to new shares.

In a separate transaction, it will also sell off 2.3m shares. The effect of these measures would be to reduce the government's stake in the airline to about 35 per cent, analysts said.

The first stage of the rights issue is likely to be held at DM160 per share or a discount of 20 per cent to the prevailing share price. This will bring in DM1.2bn for the airline which repeated its complaint yesterday about being poorly capitalised: after years of heavy losses, the ratio of equity capital to debt stands at 17 per cent, less than half the level at the end of the 1980s.

The DM100m pre-tax profit – reported by the Lufthansa parent company in the first six months – compares with a loss of DM221m in the same period last year, and follows a loss of DM82m in the first three months of the current year.

Without giving any details, Mr Weber said the airline also broke even at the operating level in the first six months of 1994, and that sales and capacity utilisation had also increased.

The target for the year as a whole had been reached in the first six months, he said.

The increase in profits reflects the airline's pre-privatisation rationalisation which last year raised productivity by 15 per cent and reduced costs by 10 per cent. A second phase of rationalisation and restructuring, planned for next year, is likely to improve Lufthansa's earnings by DM500m-DM700m a year, Mr Weber stated.

Jürgen Weber: confident

Weinstock to stay at GEC for 2 years

By Bernard Gray in London

Britain's General Electric Company yesterday said Lord Weinstock, its long-serving managing director who will shortly turn 70, would stay in that job for another two years. But the defence and electronics group appointed the managing directors of its three central business to the board to help secure the succession to Lord Weinstock, who has dominated GEC for more than three decades.

Lord Weinstock, managing director since 1963, said he expected GEC's management would become more collegiate and that he had been taking less of a leading role for some time.

GEC yesterday also announced profits of £866m for the year to March 31, only £3m higher than the previous year and below expectations. Its shares closed 24p lower at 270p.

The weakness in the share price reflected disappointment with the results rather than dissatisfaction with the management changes.

The new directors are Mr Roy Gardner, 48, managing director of GEC-Marconi, the electronics and defence subsidiary; Mr James Cronin, 56, managing director of GEC Alsthom, the power engineering joint venture; and Mr Peter Gershon, 47, managing director of GPT, the telecommunications operation.

Lord Weinstock's eventual successor is likely to chosen from an group comprising the three new board members; Mr David Newlands, 47, GEC's finance director; and Mr Simon Weinstock, 42, Lord Weinstock's son, who is commercial director.

Commenting on the results, Lord Weinstock said: "We ought to have made some more money this year, but the markets are still very tough. In many areas recession has not yet gone away." Development of an in-flight entertainment system for the Boeing 777 had proved more costly than planned, and the performance of GEC Plessey Semiconductors in the US fell substantially short of the company's expectations.

GEC now has £1.35bn in cash within the company, as well as a further £1.47bn in joint ventures. It intends to invest in existing businesses and sees opportunities, particularly for linking power station construction contracts in Asia to equity stakes in the operating companies involved.

Lex, Page 16; Details, Page 24

Ciga may allow ITT to take control

By Andrew Hill in Milan

ITT, the US conglomerate which owns the Sheraton hotel chain, could take effective control of Ciga, the Italian luxury hotels group, next week despite having a direct stake of only 17.4 per cent.

After yesterday's Ciga annual general meeting, the Italian company's directors agreed to meet next Tuesday, when they are likely to agree a reshuffle allowing up to three ITT representatives on to the Ciga board.

But Italian fund managers made clear at the shareholder meeting that the US company would not be able to ride roughshod over smaller investors' interests and said they would seek to play an active role in monitoring the company's development.

Their strong stand could herald a new role for Italian funds, which have mainly been passive investors in large Italian companies, unlike their counterparts in the UK and US.

ITT built up its stake in Ciga, through its Sheraton International subsidiary, after failing in its initial attempt to acquire the company, previously controlled by the Aga Khan.

A rights issue launched in March was expected to be a failure, delivering Ciga into the hands of its creditor banks, who would then sell a controlling stake to ITT.

But the rights issue was an unexpected success, raising L1,003bn for Ciga to help reduce its huge borrowings.

ITT's delegate at yesterday's assembly – Mr Francesco Gianni, a Milan lawyer – confirmed afterwards that ITT's stake was not a speculative investment. During the meeting, he also voted on behalf of a fund, Arca, which owns 2.7 per cent of Ciga, although he stressed that those shares were owned separately.

Mr Gianni suggested that because of legal technicalities, ITT would not be obliged to bid for a further 17.4 per cent of the company, as is usually required by Italian rules when an investor gains effective control of a company. Consob, Italy's stock market watchdog, will have to decide what ITT's next step should be.

The second largest individual shareholder in Ciga is Bankers Trust International, with 6.65 per cent although it was not represented at the annual meeting.

A group of funds holding some 15 per cent of Ciga's shares voiced support for ITT yesterday, but abstained from the formal vote on the 1993 balance sheet to show their autonomy.

"We will be more prominent in the future," said Mr Vittorio Cazzulani of Fondigest, a fund management company run by Cariplo, the Milan-based bank.

Stock swap may lead to east meeting west, writes **Richard Tomkins**

US frontiers blurred after railway merger

A railway that makes a profit has become a rarity since road transport started to offer a cheaper and more flexible alternative. But in the past few years, US railways have been doing very nicely. Now two of them, the Burlington Northern and the Santa Fe Pacific, plan to do even better by merging their large networks in a $2.7bn (£1.8bn) stock swap, creating by far the biggest railway in the US: the Burlington Northern and Santa Fe.

Unlike railways in most other countries, US railways – all of them owned by the private sector – make their money from freight. Passenger services are operated over the private railways' tracks by the state-owned Amtrak, which lost $730m last year.

Just 20 years ago, it was not too fanciful to imagine that US railways might cease to exist. Federal government investment in the construction of an interstate road system had encouraged rapid growth in the road haulage industry, and the heavily regulated railways were unable to compete.

While cost-cutting was the theme of the 1980s, the 1990s have seen the railways winning traffic

With many railways staring at bankruptcy, the industry went through a wave of mergers in the late 1970s and early 1980s that cut the 17 big railway companies to seven. Around the same time, the railways also began to see the first glimmer of salvation with the passage of the Staggers Act in 1980, which in effect deregulated the industry.

Once the merger mania was over, all the big railways started using their new commercial freedom to set more competitive freight rates, drop unprofitable traffic, dispose of loss-making lines and cut jobs. Gradually the red ink turned to black.

While cost-cutting was the main theme of the 1980s, in the 1990s the railways have started to win more traffic. Economic growth is one reason for the increase; a shortage of drivers in the trucking industry has helped, too. But more importantly, lower costs have enabled the railways to show they are still capable of competing with road hauliers on price, at least on long-distance trips.

One of their fastest-growing markets is for intermodal traffic – trailers and containers that switch from road to rail for the long-distance part of their journey.

Burlington Northern and Santa Fe say this is why they want to get together. Although both railways lie to the west of the Mississippi, connecting the Midwest with the Pacific coast, most of Burlington's network lies to the north of Santa Fe's: so connecting the two would greatly increase the number of long-distance destinations on offer to both railways' customers.

The merged railways would also get a substantial boost to competitiveness because of the efficiency savings flowing from higher traffic densities and reduced administrative costs.

The big question, however, is: will they get away with it? The Interstate Commerce Commission, a federal regulatory agency, stood aside during the wave of railway mergers in the 1970s and early 1980s. But in 1987 it forcibly intervened in a deal between Santa Fe and another of the Big Seven railways, Southern Pacific, telling them to unbundle a merger that had been accomplished more than three years earlier.

Santa Fe hopes this deal will be different. The Santa Fe and Southern networks, it says, were largely overlapping, and the Interstate Commerce Commission had feared that a merger would reduce competition.

The Santa Fe and Burlington networks, by contrast, hardly overlap at all: it would be an "end-to-end" merger, increasing the options available to customers and allowing the merged railways to compete more effectively with Union Pacific, the biggest operator west of the Mississippi.

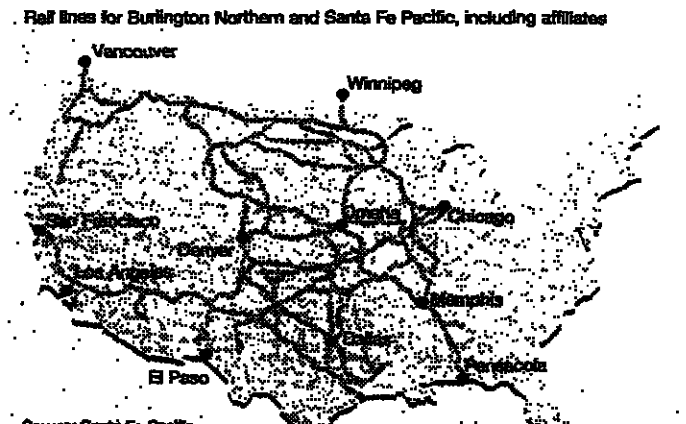
If the commission does allow the merger – and it could be the end of next year before it reaches a decision – the result could be to encourage more deals between US railways. But future mergers are likely to be different from any seen before.

For years, the industry has speculated on the possibility that one of the four big railways to the west of the Mississippi might merge with one of the three big railways to the east – the Norfolk Southern, CSX and Conrail.

This would create a transcontinental railway network providing customers with a seamless coast-to-coast freight transport service, without the costs and delays associated with interchanging traffic from one operator to another.

How the seven big US railways compare

Combined rail system
Rail lines for Burlington Northern and Santa Fe Pacific, including affiliates



Source: Santa Fe Pacific

Railways	Route (miles)	Staff	Revenue* 1993 ($bn)	Net Profit* 1993 ($m)
Western US				
Burlington Northern	22,316	[illegible]	4.7	337.8
Santa Fe Pacific	[illegible]	18,162	2.4	[illegible]
Union Pacific	17,835		4.9	594.3
Southern Pacific	11,920		2.4	-114.0
Eastern US				
CSX	18,779	29,216	4.4	308.2
Norfolk Southern	14,589	25,531	3.7	526.7
Conrail	11,851	24,728	3.3	229.0

* Revenue and net profit figures exclude non-railroad activities and exceptional charges

Source: Association of American Railroads

Analysts had speculated that any one merger would start a game of musical chairs in which the other big railways would also scramble to form east-west partnerships.

With four companies on one side of the Mississippi and three on the other, it always looked as though one company west of the Mississippi would be left in the cold.

A successful merger between Burlington and Santa Fe would send a signal to the rest of the railway industry that end-to-end mergers were acceptable to the commission, and conveniently even up the number of potential partners to three on each side of the Mississippi. At that stage, the logic of a transcontinental merger wave might become irresistible.

Murdoch joins Packer and Black as shareholder in Fairfax

By Nikki Tait in Sydney

Mr Rupert Murdoch has acquired a small stake in John Fairfax, the publisher of three of Australia's leading daily papers in which Mr Kerry Packer and Mr Conrad Black have substantial interests.

The 1.7 per cent stake was acquired last month by News Limited, the Australian arm of News International. News said it had bought 12m ordinary shares in Fairfax "as a passive investment". Fairfax shares, which were trading at around A$2.60 in mid-June, closed three cents up at A$2.70 yesterday. News Corp shares ended 5 cents lower at A$8.30.

News' disclosure comes at a delicate time for Fairfax and the newspaper industry generally. It immediately prompted speculation over Mr Murdoch's motives. Mr Conrad Black, the Canadian media magnate, is close to the maximum 25 per cent of Fairfax which he is permitted to hold under Australia's foreign investment rules.

Earlier this year, in the course of a parliamentary inquiry into Fairfax and media ownership rules, Mr Black made clear that he found this level frustrating and would like it lifted.

Mr Black said if he were allowed to hold 35 per cent of Fairfax, for example, he would consider this "an adequate position of security" from which to expand Fairfax's operations into Asia.

Mr Packer, the Australian businessman, holds 15 per cent of Fairfax, but is also pegged at this level by media cross-ownership rules.

Mr Black, through his ownership of the Telegraph group in London, is currently locked in a newspaper price war in the UK with Mr Murdoch, who publishes The Times and other titles.

As a result, various explanations were being put forward yesterday for Mr Murdoch's purchase, ranging from a desire to capitalise on Australia's strong domestic recovery, to a "squeeze play" on Mr Black.

Thomson-CSF announces two Dasa joint ventures

By David Buchan in Paris

Thomson-CSF, the French defence-based electronics company, yesterday announced two joint ventures with Deutsche Aerospace (Dasa) in an attempt to demonstrate that it had not been deflected from its expansionary course by losses from the Crédit Lyonnais bank that put it FFr2.3bn ($425m) in the red last year.

The Thomson-CSF and Dasa joint companies are involved in "smart" munitions and missile propulsion. They would have a combined turnover of FFr1.9bn.

"We have not yet finished our expansion," said Mr Alain Gomez, president, noting that only external acquisitions during the past four years had enabled Thomson-CSF to keep its turnover steady last year at FFr34bn.

The French government confirmed this week its decision to renew Mr Gomez's tenure as president of Thomson SA, the group holding company, as well as of Thomson-CSF.

Mr Gomez disclosed that he had recommended to the government that before privatisation – which will possibly take place next year – the subsidiaries and the holding company should be merged into a single unified group.

He said, however, that this course of action should only be taken after an improvement in the balance sheet of Thomson Consumer Electronics, which had already transformed its 1992 operating loss of FFr335m into an operating profit of FFr155m last year.

Thomson SA recorded an overall net loss last year of FFr3.03bn, which was largely due to Thomson-CSF's FFr2.3bn net loss.

As a 21.5 per cent shareholder in Crédit Lyonnais, Thomson-CSF had to absorb a proportional FFr1.48bn share of the bank's 1993 loss, and to set aside FFr1.77bn in provisions against possible bad property loans by the bank.

Net income at BZ Bank down 70% at mid-term

By Ian Rodger in Zurich

BZ Bank, the Zurich securities house controlled by Mr Martin Ebner, has reported a 70 per cent slide in net income to SFr15.1m ($11m) for the first half of 1994.

The decline was due mainly to write-downs on the value of securities, reflecting the 7.4 per cent decline in the Swiss market during the period. Write-offs and provisions jumped from SFr29.5m to SFr90.5m.

However, commission income doubled to SFr112.9m, indicating the bank's ability to generate trading activity even in what it described as a "rough environment".

Mr Ebner said trading activity had remained strong throughout the first half until late June. The bank also gained commission income from substantial new-issue activity and from a fast growing custody service.

At the end of June, it held SFr29bn worth of securities in custody, compared with only SFr10bn at the end of 1992, he said.

Interest income at SFr13.1m exceeded interest charges of SFr10.9m for the first time, reflecting the growth of short-term lending to clients for their securities purchases.

Mr Ebner was optimistic about the second half, anticipating a recovery in Swiss equity markets.

Gandois to step down from Péchiney

By John Ridding in Paris

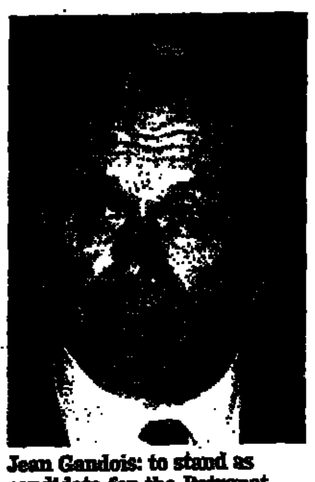
Mr Jean Gandois, chairman of Péchiney, yesterday said he would step down from the state-owned aluminium and packaging group and stand as a candidate to head the Patronat, the French employers' federation.

The Péchiney chief said that since the company will not be privatised by the time he reaches the age of 65, next May, it would be better to leave the job and allow his replacement to prepare for the sale. Public-sector company chairmen have an age limit of 65.

Mr Gandois is now set for a contest to succeed Mr François Perigot, the current head of the Patronat, who will step down in December. Mr Jean-Louis Giral, a former head of the Patronat's social committee, has already announced he will stand, and other candidates may emerge before the autumn vote which will determine Mr Perigot's successor.

The Patronat has traditionally played an important role in contributing to the policy debate with the government in areas from labour market reform to macroeconomic policy. It recently urged the government to implement investment incentives and increase financial assistance for small and medium-sized industry to support economic recovery.

In addition to his ambitions at the Patronat, Mr Gandois' decision to step down partly reflects the timing of the privatisation of the aluminium group. He has pushed for a rapid privatisation of the company, which is one of the 21 public-sector groups slated for sale by the centre-right government of prime minister Edouard Balladur.



Jean Gandois: to stand as candidate for the Patronat

Losses at the group, however, and the complex negotiations surrounding an alliance with Compagnie Nationale du Rhône (CNR), the hydroelectricity producer, have prevented an early privatisation.

Péchiney, which has suffered from the fall in aluminium prices and the increased supply from Russia and eastern Europe, suffered a net loss of FFr980m ($176.3m) last year, compared with a profit of FFr203m in 1992.

Mr Gandois said yesterday that Péchiney should return to profit this year, boosted by exceptional gains. He forecast that privatisation of the group would be possible from 1996.

In an attempt to reduce the cyclical nature of its businesses and secure a low-cost source of electricity, the French government has sought to form a partnership between Péchiney and CNR. The plan has encountered opposition, however, from local politicians and is complicated by the government's desire to maintain the monopoly of Eléctricité de France, the state-owned utility.

Dixons buoyed by sales growth

By David Wighton in London

Dixons, the UK's largest electricals retailer, yesterday provided further evidence that consumer spending had picked up since the April tax increases.

"Over the last few weeks there have been more encouraging signs that customers are coming back," said Mr John Clare, group chief executive.

Dixons had a weak second half of the year to April, but in the first nine weeks of the current year sales are ahead 11 per cent with like-for-like growth of 3 per cent. Last year sales rose 10 per cent to £1.58bn ($2.4bn).

Profits before tax and exceptional charges slipped to £73.3m from £76.7m, in line with the company's warning in January following disappointing Christmas sales.

In London, the shares, which had been weak ahead of the figures, recovered 19p to close at 189p.

Earnings per share, excluding exceptional items, rose to 11.6p against 9.8p helped by a lower tax charge.

There is a final dividend of 4.9p making 6.6p for the year.

After exceptional charges of £238.5m the group recorded a pre-tax loss of £165.2m. Most of the charge relates to goodwill written off to reserves following the sale of its loss-making US chain Silo to Fretter. There is a £20m provision for closing more high street stores in the Currys chain and £4.5m for the costs of consolidating administrative functions.

Operating profits from UK retailing slid to £72.3m compared with £77.0m, caused largely by a reduction in gross margins in Dixons and Currys. In addition to the sharp fall in retail prices of computer games before Christmas there was aggressive competition and higher sterling purchase costs. But the pressure on margins did ease towards the end of the financial year.

The Currys superstores again performed well with like-for-like sales up 7 per cent – compared with a 1 per cent decline in the high street shops – and the shift towards cheaper out-of-town sites is being accelerated. There were 158 superstores at the end of the year, an increase of 27, and a further 35 are due to open this year.

Lex, Page 16

Viag forecasts surge in earnings

By Michael Lindemann in Bonn

Viag, the diversified metals packaging and trading group, said yesterday it hoped to triple its profits to around DM900m ($569.6m) this year. The upbeat forecast came as it prepared to become one of Germany's biggest companies, with shareholders expected to approve its takeover of the utility Bayernwerk.

Mr Georg Obermeier, finance director, told the annual meeting the company would significantly increase its dividend, which stayed unchanged at DM9 this year.

Viag, whose core activities extend from aluminium and metal packaging to trading, had earnings last year of DM302m, down 19 per cent on the year before. However, it recently said first-quarter 1994 profits had risen 33 per cent, and that figures for the first five months had also improved.

The purchase of 97 per cent of Bayernwerk, Germany's third-largest utility, will increase Viag's turnover to around DM40bn from DM24bn in 1993, and make it one of Germany's top 15 companies in terms of turnover. Senior executives, however, still found themselves having to justify the DM5.515bn purchase price.

Some analysts and shareholders have said Viag paid too much, and a Berlin court recently upheld a complaint by a Viag shareholder that the company had not properly informed investors about the the Bayernwerk takeover.

The company, however, insisted the takeover had been worthwhile. "Bayernwerk is a pearl which money cannot buy in Europe any more," Mr Jochen Holzer, chairman of the Viag supervisory board, told shareholders.

Bayernwerk had annual pretax profits of about DM1bn last year. It is regarded as a particularly attractive asset because of the high liquidity of the electricity generating business.

Viag, which has been progressively privatised since 1986, said recently it would still consider acquisitions to supplement its chemicals business, but that these would have to wait until the Bayernwerk takeover was complete.

The state of Bavaria will receive a 25.1 per cent stake in Viag in return for the sale of the Bayernwerk equity.

● Reuter adds: Viag plans to wind down its involvement in aluminium production over the next few years.

Everton FC plans £9.75m share issue

By Peter John in London

Everton, one of the great names of British football, has announced the details of its first share issue for more than a century. The Merseyside club is to raise £9.75m ($14.82m) through a one-for-one rights issue. There is just one catch – each shareholder has to stump up £4,000 per share.

Everton has, and needs, a loyal band of supporters who between them have 2,500 shares which change hands at more than £2,500 each.

About 40 per cent of the shares are held by the Moores family, which founded Littlewoods football pools and formerly ran the club.

The remainder are largely owned by relatives of well-heeled fans who bought one or two shares when they were first issued in 1892 for £1 apiece and kept them as a gesture of faith rather than personal investment.

There will be an informal meeting for shareholders next Thursday at Everton followed by an extraordinary general meeting on July 26 at Goodison Park, Liverpool, to vote on the rights issue.

Dieter still wants Mannesmann post

Mannesmann, the big German industrial group, said its management board chairman Mr Werner Dieter was still campaigning for a post on the supervisory board, but had withdrawn his bid to be group chairman, Reuter reports from Frankfurt. He would not run for supervisory board chairman until an investigation into allegations of fraud against him was over.

"Mr Dieter has informed the supervisory board that in the event of his election to the supervisory board he would not be available as the board's chairman as long as there is no result of the special investigation," Mannesmann said.

Shareholders will elect supervisory board members at the annual general meeting tomorrow.

● Landis & Gyr, the electrical engineering group, said it was reorganising its two Building Control and Energy Management product divisions into three customer-oriented market segments, Reuter reports.

Landis said the new divisions will be known as Utilities, Commercial Buildings and Residential Buildings.

The creation of a market segments organisation is a consequence of Landis' strategic direction of becoming stronger oriented toward end-user markets.

Belgian minister meets air chiefs

The chairmen of Belgian national airline Sabena and French carrier Air France meet today with Belgian communications minister Mr Elio Di Rupo, Reuter reports from Brussels.

A ministry spokeswoman would not comment on the meeting, which the Belgian daily newspaper La Libre Belgique said was to clarify the alliance between the two companies. She said that a statement would be released after the meeting. The two airline chiefs last met on June 23.

Total sells shares in Euridep offshoot

By John Ridding

Total, the French oil group, said yesterday that it had sold a 20.2 per cent stake in its Euridep paints subsidiary to a group of French and international investors.

The proceeds, which are thought to be about FFr600m ($107.9m), will finance Euridep's investment and acquisition plans, Total said.

Euridep comprises all Total's paint businesses, which generate sales of about FFr3bn.

It is the largest paints company in France, and ranks number four in the UK, following its acquisition of Manders earlier this year.

Société Générale, the French bank, handled the sale of the 20.2 per cent stake in Euridep stake, taking up some of the shares itself.

Other investors included banks, insurance companies and some private investors, Total said.

Mazda seeks 10% reduction in costs

By William Dawkins in Tokyo

Mazda, the loss-making Japanese carmaker, plans to cut manufacturing costs by 10 per cent this year, and reduce over the medium term the number of models it makes.

The group, which in 1993 incurred its first loss in 19 years, would be in the red again this year, said Mr Henry Wallace, a former Ford executive recently appointed vice-president of Mazda, which is a 24.5 per cent-owned Ford affiliate. However, he forecast Mazda would return to profit in the following 12 months.

Mr Wallace is one of the three senior Ford executives who joined Mazda early this year – through an agreement between the companies – to expand their 25-year-old partnership and help Mazda adjust to the slowdown in its main markets.

Since the start of the year, Mazda has nearly doubled the size of its design engineering team. It seeks cost-savings through the redesign of components, and has also secured 10 per cent price cuts from component suppliers.

This is on top of earlier restructuring plans which involved closing a plant and and reducing the workforce by 3,000, 10 per cent of the total, during the three years to 1996. The group was also planning to rationalise its product line, where it had "too many products we can't support for the future", said Mr Wallace.

However, Mazda's production capacity was now "pretty much OK", he said. The group could break even by next year, even if the Japanese currency rose to Y95 to the dollar, and make a "significant profit" at Y100 to the dollar, he said. Mazda had prepared "contingency plans" to become profitable if the rate rose above Y95.

Mr Wallace hoped that talks with Ford on possible European co-operation would be finalised in the next 12 months. The next step in the alliance has been the subject of renewed speculation since Ford's decision in April to create worldwide divisions for different classes of car.

Banks offer lesson in regulation

The issue of how best to police derivatives markets has been exercising the minds of regulators, bankers and end-users for several years. The usual regulatory approach has been to apply existing standards to the derivatives markets.

In a paper published yesterday by the Centre for the Study of Financial Innovation, Mr Charles Taylor, executive director of the Washington-based think-tank Group of Thirty, turns that approach on its head. He argues that not only have regulators got it wrong, but that derivatives specialists at banks have largely got it right. In fact, he says, the model-based approach to market risk management adopted by derivatives specialists should be extended not only to other areas of securities trading, but also to credit risk and other types of risk.

"The central idea is that the amount of capital a bank needs is related to the riskiness of its business, measured by the volatility of its income," says Mr Taylor. Unlike the traditional approach of assessing credit exposure, this involves predicting future volatility using historical models and marking to market.

There are four steps:

- regulators need to set risk parameters, such as the scope of historical data;
- they must validate the computer models used by banks;
- banks must estimate the overall 'value-at-risk';
- finally, the regulator has to apply a 'conservatism factor' to the resulting estimates, in order to calculate the capital adequacy standard.

DERIVATIVES

The ideas in Mr Taylor's paper, "A new approach to capital adequacy regulation for banks", stem partly from discussions with market practitioners when putting together the Group of Thirty's guidelines on best practice in the derivatives market.

"Our discussions led me to think that it might be possible to apply concepts used there, like value-at-risk and statistical measures of income volatility, to the wider problem of setting capital adequacy standards. Then I learnt that this idea was nothing but 'best practice' in capital allocation," Mr Taylor explains.

As well as setting out how this could be done by regulators, Mr Taylor criticises the existing approach, embodied in the 1988 Basle Accord, and the market risk amendment, which he describes as "rough and ready".

However, Mr Taylor, who has discussed his ideas with both regulators and bankers, is surprisingly optimistic about the prospect of regulators taking up what is effectively a reversal of their traditional approach to regulation.

Certainly, the Basle committee has delayed implementing its market risk amendment due to the strong adverse reaction by banks.

Originally, the comment period was to end in December 1993, for a decision in early 1994, followed by implementation. Mr Taylor says he expects regulators to allow greater use of models in calculating market risk than is indicated in the original consultative paper.

There are a number of points in Mr Taylor's favour. First, applying rules which already correlate with internal risk management is clearly a more efficient approach. Secondly, regulators' own understanding has advanced in leaps and bounds in recent years. They may now be ready to apply some of the lessons learnt to other areas of regulation.

However, there are also problems. The computer models used are extremely complex and, to police the system effectively, regulators would need to employ highly-skilled staff. Such staff, as well as being expensive, might quickly be tempted to move to banks.

Mr Taylor thinks this problem can be overcome. "Regulators are taking a lot of time and trouble to train people," he argues. In addition, he believes that as the derivatives markets continue to expand, the pool of experts in the field will grow.

To some degree, the same problem exists among smaller banks and institutions on the fringes of the market – although, arguably, market participants who are not sophisticated enough to implement this type of risk management should not be involved in the market.

Secondly, many of the blow-ups in the derivatives markets have taken place not because of inherent risks, but because traders have deliberately misreported or falsified positions. A system relying on traders marking to market would have to be very closely policed.

- *A new approach to capital adequacy regulation for banks; Centre for the Study of Financial Innovation, 18 Curzon Street, London W1Y 7AD.*

Tracy Corrigan

Bunnings valued well above suitor's offer

By Nikki Tait in Sydney

Bunnings, the Western Australian forest products, manufacturing and merchandising group facing a bid of more than A$535m (US$390.5m) from Wesfarmers, said yesterday Price Waterhouse, called in as an independent adviser, had valued its shares at between A$12.52 and A$13.61.

This is much higher than the A$10.40-a-share cash alternative being offered by the bidder, which already holds a 48.1 per cent interest in its target. Bunnings said its advisers had put the value of Wesfarmers' paper alternative at between A$9.96 and A$10.46 a share, and again urged shareholders to reject the current terms.

"The conclusions of the independent expert support the committee's opinion that the current offer price is inadequate," Bunnings said.

- Lawyers for Rank Commercial, the New Zealand-based company bidding around A$500m for Australia's Foodland Associated, told a court yesterday Rank would drop the offer if the injunction sought by the Trade Practices Commission was granted.

Rank plans to sell Foodland's Australian assets on to Coles Myers if successful with the bid.

The TPC, Australia's competition watchdog, has sought the injunction because of concerns over Coles' potential grip on the grocery market.

- Shares in Dominion Mining fell 3 Australian cents, to 44 cents, yesterday, after the smaller Gold Mines of Australia said it was abandoning its takeover bid for the group.

Japan prepares for tobacco group float

By Emiko Terazono in Tokyo

Shares in Japan Tobacco are to be offered next month ahead of the the state-owned group's listing on the Tokyo stock exchange in late October, Japan's ministry of finance announced yesterday.

The decision follows a two-year delay in the share offering due to the sluggish Tokyo stock market. The stock exchange listing comes a year after that of East Japan Railway, when demand was so great that the TSE's computer system came to a standstill for a while.

The success of JT's listing is crucial to the share offerings of other state-owned companies waiting to be privatised, including the railway operators splintered from the former Japan National Railway.

The government will release 666,666 shares, or one-third of the outstanding 2m shares. Of this, 230,000 will be auctioned publicly in August. The rest will be sold at a price based on that auction.

- The finance ministry has approved the entry of two US firms, Canter Fitzgerald Securities and Garban, to operate as inter-dealer brokerages for Japanese government bonds.

Japan's "broker's broker" operations are dominated by two Japanese companies, Japan Bond Trading and Nakadachi Securities. The US firms will be the first foreign operators to move into the market.

The move is a response to US demands for more open financial markets. The US firms have undertaken inter-dealer transactions in US government bonds in Japan since 1988.

Thrifts in plan for $1.1bn merger

By Martin Dickson in New York

The two largest thrifts in the New York/New Jersey metropolitan region – Dime Bancorp and Anchor Bancorp – yesterday announced plans for a $1.1bn stock-swap merger, the biggest move yet in the consolidation of the New York area thrift business.

The merger will form the fourth-largest publicly traded thrift in the US, with total assets of about $20bn and deposits of nearly $13bn.

Investors in Anchor will receive 1.77 shares of Dime stock for each of their shares, valuing Anchor at around $1.1bn on the basis of yesterday's Dime share price, which dipped $⅞ in morning trading to $9¾. Anchor rose ⅜ to $16¼.

The US thrift industry – which has traditionally obtained most of its deposits from consumer savings and supplied loans to the residential mortgage market – is facing growing competition for loan business.

Dime, with headquarters in New York City, had $5.9bn in deposits and $9.4bn in assets at the end of the first quarter and operates 34 full service branches in the metropolis.

Anchor, which has its headquarters in Nassau County, on Long Island, had $6.9bn in deposits and $10.3bn in assets at the end of March. It operates 51 full service branches in New York, New Jersey and Florida.

Both thrifts have recovered from losses in the property downturn of the late 1980s and early 1990s and the merged entity is expected to be classified as "well capitalised" under regulatory guidelines.

Mr Richard Parsons, chairman and chief executive of Dime Bancorp, will have the same roles at the new holding company, while Mr James Large, chairman and chief executive of Anchor, will head Dime Savings Bank.

Labatt and Femsa in N America beer tie-up

By Bernard Simon in Toronto

John Labatt, the Canadian brewing and entertainment group, has joined Femsa, Mexico's biggest beverage company, in a North American beer alliance.

It will give Labatt access to the fast-growing Mexican beer market, while providing Femsa with marketing and technical expertise to shore up recent erosion of its market share.

Labatt will initially pay US$510m for a 22 per cent stake in Cerveceria Cuauhtémoc-Moctezuma, Femsa's wholly-owned brewing arm. It will have an option to acquire another 8 per cent over the next three years.

Femsa will retain a 51 per cent stake, and the remainder will be offered to Mexican and international investors in a public offering.

Labatt will nominate five of Femsa Cerveza's 18 directors, while Mr Othon Ruiz Montemayor, Femsa chief executive, will join Labatt's board. The deal is expected to be finalised by the end of September.

Labatt is best known in the UK for its popular Rolling Rock beer and in North America for its controlling stake in the Toronto Blue Jays baseball team.

The two companies, which are of similar size, will also form a joint venture in the US to distribute high-priced specialty beers, and plan a joint assault on other Latin American markets.

They raised the possibility yesterday of either spinning off a minority stake in the US company to the public or offering it to another foreign brewer eager to expand in the huge US market.

The Labatt-Femsa partnership undercuts the 1992 acquisition by Philip Morris, the US consumer goods group, of an 8 per cent equity stake in Femsa. The investment was partly designed to lay a foundation for closer ties between Femsa Cerveza and Miller Brewing, a wholly-owned Philip Morris subsidiary.

Mr Ruiz said yesterday Femsa had considered an alliance with Miller, among others, but that Labatt had proved to be the best fit. "It's up to [Philip Morris] to decide if they keep the shares, or sell the shares, or whatever," he said.

Femsa Cerveza, with projected 1994 sales of $1.56bn, has a 48 per cent share of the Mexican beer market, down from more than 50 per cent a few years ago.

Labatt's investment is by far the largest of any Canadian company in Mexico since the implementation of the North American free trade agreement in January 1994.

Future will test wisdom of miner's gamble

Nikki Tait assesses Western Mining's A$1bn link with Alcoa's bauxite/alumina business

As one Melbourne-based mining analyst put it: "I'm still trying to decide whether we're positive or negative about this deal". He was speaking of Australia's Western Mining Corporation's decision to buy into Alcoa's international bauxite/alumina-related operations at an effective cost of about A$1bn (US$700m).

"The problem," he explained, "is that there's a list of pluses, and a list of minuses."

WMC, one of the nation's largest mining companies, is altogether less equivocal. It says that the deal, announced yesterday, is an important step towards moving WMC from being a predominantly Australian company, to becoming more of a "global player".

It will also enable the company to expand and to diversify a core business and partly shift it from raw commodity production towards proprietary products. It will also allow WMC to expand with a US partner it knows well.

The last element is incontrovertible. In the 1950s, several Australian companies – including WMC – realised that bauxite deposits in the Darling Range in Western Australia could form the basis of an integrated aluminium business. Alcoa, the US company, was brought in to provide industrial expertise and, in 1961, Alcoa of Australia was formed.

WMC has over the years bought out its fellow Australian partners, so that its current interest in Alcoa of Australia stands at 48.25 per cent. Alcoa, the US parent, holds 51 per cent.

It has been a successful venture. Alcoa of Australia has become the world's largest alumina producer and – in spite of oversupply in the world aluminium industry – made an after-tax profit (before abnormals) of A$389.4m last year; an increase of A$130.5m over the previous period. Sales were A$2.19bn.

These results, assisted by a decision to extend the Wagerup Refinery, largely explained a sharp increase in WMC's own profits during the six months to end-December, the first half of its financial year.

The latest proposal is that WMC and Alcoa should put all their international bauxite, alumina, and alumina-based chemicals interests into one "enterprise," and share them on a 40:60 basis respectively.

The amalgam of businesses, made up of Alcoa of Australia and Alcoa's other international bauxite/alumina-based interests, would account for about 25 per cent of the world's alumina production and have total sales of about US$2.7bn.

To effect the deal, WMC would buy into Alcoa's other bauxite/alumina-related interests. The "ballpark" cost, according to Mr Hugh Morgan, WMC managing director, would be about A$1bn, but this would not just comprise cash.

WMC would pass about 9 per cent of Alcoa of Australia to Alcoa of the US, reducing its own interest to 39.25 per cent. It would then pay a further US$360m to the US group.

WMC would also expect to contribute about US$120m of working capital, on a short-term basis, to the new group. The deal would be completed by the end of 1994.

Although WMC's balance sheet is modestly geared, the mining company plans to raise A$720m to help fund the transaction. That will be done via a one-for-eight rights issue at A$5.80 a share.

The problem for some analysts yesterday was that WMC proposes to give up 9 per cent of an established low-cost producer for a larger, 40 per cent interest in operations which, on historical data, appear to be lower quality (in terms of return on shareholder funds, for example). Alcoa's bauxite/alumina-related interests are numerous, but include:

- the Point Comfort alumina refinery in Texas;
- 55 per cent of the Suriname alumina refinery, plus a Suriname smelter and hydroelectric facility;
- 50 per cent of a Jamaican alumina refinery;
- 55 per cent of a refinery in Brazil;
- Alcoa Steamships;
- Alcoa's alumina-based chemicals division, which comprises 20 plants worldwide and had revenues last year of US$500m.

'Everything depends on the growth outlook . . . You could argue that WMC is getting in on the ground-floor of the alumina-chemicals business'

According to figures provided to WMC by Alcoa, these operations saw revenues peak at US$2.32bn in 1990, falling to US$1.16bn in 1993. Earnings before interest and tax went from US$527m in 1990, to US$81m in 1992, and then edged up to US$88m last year.

"But that's the historic view," admits Mr Chris Bain, senior research manager for resources at ANZ McCaughan. "Everything depends on the growth outlook for the Alcoa businesses. You could argue that WMC is getting in on the ground-floor of the alumina-chemicals business. It's just hard to know what the prospects are."

WMC admits the deal is dilutive at current alumina prices. In terms of 1993 earnings, the loss of 9 per cent of Alcoa of Australia's profits – which works out at US$35m – would be exactly offset by the contribution of 40 per cent of the acquired businesses' earnings. However, the rights issue means that once the deal is completed there will be more WMC shares in issue.

Confronted by these analysts' anxieties, Mr Morgan points out that it is the future which matters. The deal will give the company more leverage in the alumina market, increasing its share of production capacity by one third to 3.9m tonnes per annum or 10 per cent of world production.

The entry into alumina-based chemicals is "an important element" of the transaction. "It's a business with high growth rate, high margins," he says.

INTERNATIONAL CAPITAL MARKETS

Treasuries slip as traders await FOMC decision

By Patrick Harverson in New York and Conner Middelmann in London

Longer-dated US Treasury prices slipped in light volume yesterday morning as traders and investors stayed mostly on the sidelines while the Federal Reserve's open market committee finished its two-day meeting.

By midday, the benchmark 30-year government bond was down $\frac{3}{32}$ at $84\frac{21}{32}$, yielding 7.610 per cent. The two-year note was unchanged at 99¾, to yield 6.118 per cent. The early decline in prices was attributed to the modest weakening in the dollar during morning trading due to the growing perception on Wall Street yesterday that the FOMC would not vote at its meeting to raise interest rates to support the ailing US currency.

Most analysts believe that the Fed realises it would send the wrong signal to financial markets if it allowed the foreign exchange speculators who have been selling the dollar to dictate the direction of monetary policy. Those same analysts believe the FOMC would only raise interest rates if awaited economic statistics indicated the economy needed cooling further.

GOVERNMENT BONDS

The next set of important data is due out tomorrow when the June employment report is published, and nervousness ahead of the release of the jobs figures was partly to blame for yesterday's early losses and the overall lack of trading activity.

■ European government bonds traded nervously yesterday, with dealers eyeing the FOMC meeting and continuing currency volatility.

■ *German government bonds* ended a directionless session slightly higher on the back of short-covering in the futures market.

Investors remained sidelined as they awaited the outcome of the FOMC meeting, today's Bundesbank Council meeting, tomorrow's US employment data and the weekend Group of Seven summit in Naples.

Bunds shrugged off the three-basis-point reduction in the Bundesbank's minimum securities repurchase rate to 4.93 per cent and the downward revision of May M3 money supply growth to an annualised 13.4 per cent, from a provisional 13.7 per cent.

Although most market participants expect another cut in the Bundesbank's 4.5 per cent discount rate this year, few expect to see it today. "Cutting again with M3 growth so much above target would damage their credibility," said one trader. The Bundesbank's M3 growth target range is 4 per cent to 6 per cent.

■ UK gilts ended a jittery session slightly lower in thin volume as investors eyed the FOMC meeting. Trading was dominated by activity in the futures pits and dealers reported sporadic and trendless activity in the cash market. D-Mark strength against sterling added to pressure on gilts, causing the UK market to underperform Germany.

■ French bonds ended the day slightly weaker, depressed by the prospect of today's auction of FFr19bn-FFr21bn in medium- and long-dated bonds. Weakness in the French currency against the D-Mark reduced hopes that the Bank of France might follow the Bundesbank's latest rate cut with an easing move today.

■ *Swedish bond yields* hit a new high for the year, pressured by currency weakness as the krone fell to a low for the year.

After Tuesday's auction of government bonds had gone better than expected, many of Tuesday's buyers became sellers yesterday.

"The auction went well because the currency had weakened sharply and yields were high – you got some opportunistic investors into the auction stock who were looking to make money quickly and get out," said Mr Jouni Kokko, international economist at S. G. Warburg Securities.

The yield on the nine-year benchmark bond closed at a new high at 10.73 per cent, a rise of 20 basis points from Tuesday.

■ Spanish bond yields hit a high for the year, dogged by political uncertainty and fears that heavy funding at the short end will push short rates higher. The 10-year benchmark yield rose as high as 11.11 per cent.

■ In Belgium, reports that domestic troubles were weakening prime minister Jean-Luc Dehaene's coalition government, in addition to recent nervousness over the budget outlook, caused short-dated yields to rise sharply.

Voluntary code on derivatives sought by SEC

By Patrick Harverson in New York

The US Securities and Exchange Commission is hoping that a voluntary agreement among the big Wall Street firms to accept closer regulation of their derivatives activities will head off Congress' attempts to seek tougher regulation of the $1,000bn derivatives market.

The SEC, the US financial markets watchdog, said yesterday that it had been in talks with the six biggest derivatives dealers on Wall Street – CS First Boston, Goldman Sachs, Salomon Brothers, Merrill Lynch, Lehman Brothers and Morgan Stanley – about voluntary standards for several areas of the business.

The SEC hopes the firms will reveal more about the extent and nature of their derivatives business, and the amount of capital they have to support their derivatives trades.

The agency wants to know more about the dealers' derivatives clients. It has become increasingly concerned about *Wall Street selling* derivatives products to companies or financial institutions which do not inform investors or shareholders of their activities. The SEC has told the country's money-market funds – which are sold as highly conservative, secure forms of investment – to stop using complex, risky derivative products.

The SEC believes if the dealers accept voluntary oversight, legislators in Washington will be dissuaded from passing new laws requiring the agency to regulate the derivatives activities of securities firms, and insurance companies.

The derivatives activities of banks are subject to formal regulation, but Wall Street firms operate through separately capitalised subsidiaries out of reach from regulation.

Congress is sufficiently concerned about this to propose legislative reform. This week, congressman Edward Markey, chairman of the House subcommittee on telecommunications and finance, said legislation was needed to "close the regulatory black hole which allows derivatives dealers affiliated with securities or insurance firms to largely escape any federal regulation".

Borrowers take advantage of re-awakened eurolira sector

By Tracy Corrigan

After a lull due to the volatility of the Italian government bond market, three borrowers took advantage of renewed interest in the eurolira market and attractive swap opportunities to launch L700bn-worth of issues yesterday.

INTERNATIONAL BONDS

Dealers said swap opportunities had been available for a week or more, as the gap between the secondary eurolira bond market and the lira swaps market widened, allowing deals to be priced with double-digit coupons.

The growing yield differential between German and Italian bonds and the perceived weakness of the lira then started to attract retail investors and portfolio managers back to the eurolira market, in spite of continuing nervousness about the Italian government bond market.

Austria's **Osterreichische Kontrollbank** launched the first of the three five-year issues, a L200bn offering of 10 per cent bonds arranged by Swiss Bank Corporation, followed by a L200bn deal with a 10¼ per cent coupon for Deutsche Bank.

The third deal off the blocks was a L300bn offering for Commerzbank, arranged by IMI Bank.

The issue made up for its late arrival and slightly lower rating (the other two are both rated triple-A) with a 10½ per cent coupon.

In spite of concern that the heavy flow of paper would quickly exhaust interest, dealers reported demand from Germany, Switzerland and the Benelux region. The concentration on the five-year area, where the best swap rates were available, suited retail investors.

Two large yen offerings for the Province of British Colombia, which launched three small deals in the sector on Tuesday, and the Kingdom of Sweden were driven by strong demand for yen assets from Japanese investors. Japanese institutions had been selling US bonds due to currency concerns and were cash-rich, dealers said.

The 4 per cent coupon on British Colombia's five-year issue via Daiwa and the 3.10 per cent coupon on Sweden's short-dated deal arranged by IBJ proved attractive, according to traders, as Japanese investors such as insurance companies are interested in coupon rather than yield spread levels.

In the D-Mark sector, the triple-A rated City of Paris launched its first foreign currency bond offering, a DM130m five-year deal arranged by Banque Paribas. Decentralisation has allowed French municipalities greater freedom to diversify their funding, which traditionally has mainly come from the French agency, Crédit Local de France.

The deal was targeted at retail investors in Germany, Switzerland and the Benelux region.

In the dollar market, Essar Gujarat, the Indian steel company, launched the first floating-rate note by a private-sector Indian company. The deal was broadly placed with institutions according to lead manager Chase Investment Bank.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Liblife International(e)§	(a1)	(6-6½)#	100.00	Sep.2004	2.50	-	Robert Fleming
Essar Gujarat‡	*200*	*(b)*	*100.00R*	*Jul.1998*	*1.25R*	-	*Chase Investment Bank*
SITIC(c)‡	130	(c1)	100.00	Aug.2001	0.25	-	IBJ Asia/ OCBC
Benpu Coal(d)§	(d1)	(3.50)	100.00	Aug.2004	2.50	-	Jardine Fleming
YEN							
Province of British Colombia	50bn	4.00	99.90R	Aug.1999	0.25R	+30(JGB 119)	Daiwa Europe
Kingdom of Sweden(e)	*50bn*	*3.10*	*100.00R*	*Jan.1997*	*0.15R*	-	*IBJ International*
D-MARKS							
Ville de Paris	*130*	*6.50*	*99.544R*	*Sep.1999*	*0.25R*	*+15 (6¾%-99)*	*Banque Paribas(Deutsch.)*
ITALIAN LIRE							
Commerzbank Finance	300bn	10.50	99.525R	Aug.1999	0.30R	-	IMI Bank Luxembourg
Deutsche Bk. Finance(Curacao)	200bn	10.25	99.77R	Aug.1999	0.25R	-	Deutsche Bank London
OKB	200bn	10.00	101.125	Aug.1999	1.875	-	Swiss Bank Corp.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Fixing approx 12/7/94. Conv into Liberty Life shares at indicated prem of 10-12% over 5 day average. Callable from 30/9/99, subject to 140% hurdle, at par. a1) $360-500m. b) 6-mth Libor +265bp. c) Callable and puttable in Aug.99 at par. c1) 6-mth Libor +50bp. d) Fixing approx 8/7/94. Conv prem indicated at 5-10% over 5 day average. Puttable in 5 yrs at approx Treasuries +125bp. Callable after 3 yrs, subject to 140% hurdle, at accreted value. d1) $60-80m subject to shareholder and SEC approval. e) Short 1st coupon.

Bank scraps Dutch unit

CS First Boston, the merchant banking arm of CS Holdings, plans to scrap its Dutch equity operations in Amsterdam and move them to London within the next few months, writes Conner Middelmann.

Mr Xavier Rolet, managing director of European equities at CS First Boston in London, said that by concentrating equity operations in London, "we want to regroup our strength, develop our pan-European business and increase our placing power among institutional and corporate clients." The cost of running the operation was a factor, although it was not decisive, he said.

CS First Boston is holding talks with the Amsterdam stock exchange "to see under what conditions we can continue as foreign-based members or in some form of association," Mr Rolet said. "They have been fairly receptive."

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	95.5100	+0.060	9.70	9.65	8.64
Belgium		7.250	04/04	93.4000	-1.200	8.25	7.85	7.87
Canada *		6.500	06/04	82.4500	+0.200	9.24	9.22	8.58
Denmark		7.000	12/04	89.8500	+0.100	8.50	8.17	7.99
France	BTAN	6.000	05/98	103.3400	-0.100	6.90	6.64	6.66
	OAT	5.500	04/04	85.6900	+0.090	7.62	7.32	7.27
Germany Treuhand		6.750	05/04	97.6800	+0.110	7.09	6.98	6.95
Italy *		8.500	01/04	87.8200	-0.300	10.56†	10.14	9.90
Japan	No 119	4.800	06/99	105.0490	+0.130	3.60	3.59	3.59
	No 164	*4.100*	*12/03*	*98.3250*	*+0.198*	4.35	*4.29*	4.23
Netherlands		5.750	01/04	90.7800	+0.140	7.11	7.03	7.01
Spain		8.000	05/04	81.8500	-0.500	11.11	10.47	9.98
UK Gilts		6.000	08/99	90-19	-4/32	8.31	8.15	8.03
		6.750	11/04	87-08	-6/32	8.63	8.39	8.33
		9.000	10/08	102-25	-8/32	8.65	8.46	8.40
US Treasury *		7.250	05/04	99-17	-1/32	7.32	7.23	6.90
		6.250	08/23	84-08	-	7.61	7.50	7.23
ECU (French Govt)		*6.000*	*04/04*	*85.6500*	*-0.080*	*8.18*	*7.64*	*7.80*

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. *Source: MMS International*

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

		One month	4.14	Two year	6.14
Prime rate	7¼	Two month	4.29	Three year	6.44
Broker loan rate	5½	Three month	4.43	Five year	6.93
Fed funds	4⅜	Six month	4.92	10-year	7.31
Fed funds at intervention	*4¼*	*One year*	*5.46*	*30-year*	*7.61*

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	114.22	114.10	-0.10	114.46	113.82	119,977	132,234
Dec	113.30	113.22	-0.10	113.50	113.10	1,916	12,360
Mar	112.56	112.48	-0.10	112.66	112.56	98	1,728

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Aug	Calls Sep	Calls Dec	Puts Aug	Puts Sep	Puts Dec
114	-	2.24	2.50	1.50	2.16	-
115	*1.11*	*1.69*	-	*2.00*	*2.57*	-
116	0.75	1.21	1.52	-	3.06	-
117	0.40	0.83	1.20	-	3.65	-
118	0.20	0.53	0.90	4.06	4.36	-

Est. vol total, Calls 16,919 Puts 64,843 . Previous day's open int., Calls 325,572 Puts 353,094.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.79	91.95	+0.19	92.16	91.50	93818	143377
Dec	91.00	91.30	+0.21	91.10	90.95	222	7910

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
9150	1.19	1.71	1.59	1.88	0.74	1.26	1.79	2.08
9200	0.90	1.41	1.35	1.64	0.95	1.46	2.05	2.34
9250	0.64	1.14	1.15	1.40	1.19	1.69	2.35	2.60

Est. vol. total, Calls 11032 Puts 7367. Previous day's open int., Calls 249074 Puts 231318

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	97.50	0.07	-	-	0	76

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	*102.55*	*102.90*	*+0.09*	*103.30*	*102.30*	*25413*	*59951*
Dec	-	101.85	+0.09	-	-	0	100

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10250	*2.59*	*3.37*	*2.19*	*4.02*
10300	2.33	3.15	2.43	4.30
10350	2.06	2.94	2.68	4.59

Est. vol. total, Calls 1828 Puts 1013. Previous day's open int., Calls 29400 Puts 25585

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	86.70	86.40	-0.72	86.83	85.90	56,154	107,033
Dec	88.15	85.70	-2.00	88.15	88.15	11	13

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	100-04	99-26	-0-11	100-14	99-14	34785	110166
Dec	-	98-26	-0-11	-	-	0	411

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
99	2-34	3-08	1-46	3-20
100	1-62	2-43	2-10	3-55
101	*1-39*	*2-17*	*2-45*	*4-29*

Est. vol. total, Calls 2928 Puts 3344. Previous day's open int., Calls 61833 Puts 51191

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	82.24	82.24	-	82.44	82.06	1,223	5,888
Dec	-	81.80	-	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	101-21	101-11	-0-09	101-22	101-06	201,825	363,212
Dec	100-24	100-19	-0-08	100-24	100-14	4,248	49,535
Mar	-	100-05	+0-08	-	-	189	3,852

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	108.98	-	-	109.35	108.98	*3102*	*0*

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jul 6	Day's change %	Tue Jul 5	Accrued interest	xd adj. ytd		Low coupon yield Jul 6	Jul 5	Yr. ago	Medium coupon yield Jul 6	Jul 5	Yr. ago	High coupon yield Jul 6	Jul 5	Yr. ago
1 Up to 5 years (24)	121.11	-0.02	121.14	1.87	6.82	5 yrs	8.39	8.36	6.78	8.57	8.54	6.94	8.66	8.63	7.13
2 *5-15 years (22)*	*138.91*	-0.24	*139.25*	2.12	8.71	*15 yrs*	8.58	8.54	7.88	8.72	8.68	7.97	9.00	8.96	8.22
3 Over 15 years (9)	155.07	-0.26	155.47	2.02	6.57	20 yrs	8.51	8.50	8.03	8.72	8.68	8.08	8.80	8.78	8.26
4 Irredeemables (6)	175.98	+0.59	174.96	1.44	7.36	Irred.†	8.57	8.62	8.17						
5 All stocks (61)	136.86	-0.17	137.09	2.04	6.43										

Index-linked							Inflation 5% *Jul 6*	*Jul 5*	Yr. ago	Inflation 10% *Jul 6*	*Jul 5*	Yr. ago
6 Up to 5 years (2)	186.27	+0.01	186.26	1.32	2.53	Up to 5 yrs	3.86	3.85	2.91	2.85	2.84	2.17
7 Over 5 years (11)	*170.60*	*+0.05*	*170.51*	*0.62*	2.65	*Over 5 yrs*	3.95	*3.95*	3.51	*3.77*	*3.77*	3.33
8 All stocks (13)	171.35	+0.05	171.26	0.87	2.63							

Debentures and Loans						5 year yield Jul 6	Jul 5	Yr. ago	15 year yield Jul 6	Jul 5	Yr. ago	25 year yield Jul 6	Jul 5	Yr. ago
9 Debs & Loans (78)	*127.09*	*+0.18*	*126.86*	*2.31*	*5.84*	*9.75*	*9.77*	*8.06*	*9.68*	*9.70*	*8.92*	*9.81*	*9.63*	*9.09*

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	July 6	July 5	July 4	July 1	June 30	Yr ago	High*	Low*
Govt. Secs. (UK)	91.60	91.78	91.99	91.61	91.57	97.87	107.04	90.99
Fixed Interest	108.78	109.26	109.25	109.14	108.56	115.92	133.87	107.33

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	July 5	July 4	July 1	June 30	June 29
Gilt Edged bargains	84.3	73.0	89.0	91.0	120.2
5-day average	91.5	94.3	99.3	96.6	97.0

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

♦ 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on July 6

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	91	91⅜		7.95
Alberta Province 7⅝ 96	1000	101	101¼		7.33
Austria 8½ 00	400	104¾	105⅛		7.41
Bank of Tokyo 8⅞ 96	100	102⅞	103⅛	+⅛	8.54
Belgium 5½ 03	1000	84⅝	84⅞		7.88
United Kingdom 7⅛ 97	5500	102⅛	102¼		6.38
Volkswagen Intl Fin 7 03	1000	97⅛	97½	+⅛	7.45
World Bank 0 15	2000	20⅞	21¼	+⅛	7.57
World Bank 5⅜ 03	3000	90¾	90⅞		7.27
World Bank 8¾ 00	1250	110⅞	111¼	+⅛	6.43
Abbey Natl Treasury 8 03 £	1000	91½	91⅞	-⅛	9.48
Alliance Leics 11⅜ 97 £	100	107⅞	108¼		8.13
British Land 8⅞ 23 £	150	87½	88	-⅛	10.46
Denmark 6¾ 98 £	800	94¼	94⅝	-⅛	8.45
EIB 10 97 £	637	104¾	105⅛	-⅛	7.85
Halifax 10⅜ 97 £	100	105½	105⅞	-⅛	8.01
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES — [illegible]

CONVERTIBLE BONDS — [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Lower interest boosts Taunton Cider to £20m

By Paul Taylor

Sharply lower interest costs helped Taunton Cider report a 15 per cent increase in full year pre-tax profits despite intense competition from low-price brands in the take-home cider market which held back both turnover and operating profits.

Taunton, which warned about the impact of the surge in economy brand sales in March, reported pre-tax profits of £20.3m in the year to April 30, against £17.6m, on turnover marginally higher at £125.3m (£124.9m).

Interest payments fell from £2.68m to £68,000. Interest receipts slipped to £371,000 (£572,000) despite an increase in year-end net cash which increased over th year from £2.21m to £4.5m. Adjusting for the flotation in July 1992, pro-forma pre-tax profits were 4 per cent higher at £20.3m (£19.5m.)

Earnings per share were up 7 per cent to 13.1p (12.2p) and the board is recommending a 3.95p final divided which makes a total of 6.6p (6p).

Operating profits increased by 1.52 per cent reflecting a further increase in sales volumes and the continued strong performance of the group's leading brands which include the Dry Blackthorn, Autumn Gold and Diamond White brands.

In the on-trade business, which accounts for about half the cider market, Taunton boosted both volume and market share. Total pub volumes grew by 3 per cent with growth in draught sales offsetting a decline in packaged volumes.

The group also increased sales of both its own brands and retailer and economy brands in the take home market, but nevertheless lost market share with its brands showing a 4 per cent volume gain compared with market growth of 9 per cent.

Taunton believes economy brands have now peaked with about 10 per cent of the market. It hit back at the start of the year cutting costs and lifting promotional spending.

As a result Mr Michael Cottrell, chairman, said: "Take home sales volumes in the last three months of the year were significantly up on the previous year and have continued strongly into the new financial year."

● COMMENT

Taunton has responded firmly, if a little tardily, to the threat posed by cut-price cider in the take home market. Promotional spending has been boosted by between £1m and £2m a year and is being paid for by cutting costs and boosting productivity. Over the next two years it believes it can cut costs by another £5m to offset margin pressure. However the years of strong domestic profit growth are probably over. Reflecting this Taunton recently signed a promising distribution deal with Molson in the US. In the meantime pre-tax profits should edge higher to about £20.7m this year, producing earnings of 13.3p. The shares gained 12p yesterday to close at 162p and look fairly priced.

MPs condemn pay-out to former Severn Trent chief

By David Owen

A group of Labour MPs yesterday condemned a six-figure pay-out to the former chairman of one of the regional water companies and urged Ofwat to act to protect consumers from similar "excesses".

A total of 54 MPs headed by Mr Richard Burden, MP for Birmingham Northfield, used a parliamentary early day motion to attack "a half-million pound pay-off" to Mr John Bellak, former chairman of Severn Trent.

The payment came to light in the company's annual accounts, which showed that, on top of his salary package of £230,300, Mr Bellak was paid £512,626 in compensation for early retirement. This latter figure consisted of £404,829 for "early termination of his service contract" and £107,797 for future pension payments.

The motion deplored the pay-out before going on to note "that during his term in office, Mr Bellak ruthlessly promoted the privatisation of the water industry despite evidence that the majority of the public he was supposed to serve opposed the sell-off; further notes that Mr Bellak's remuneration since privatisation was boosted by a series of salary rises and by share option deals while water prices soared and public accountability diminished; believes that it is a disgrace that the water companies should be making multi-million pound profits and making large payoffs to top executives when pensioners and low income families cannot afford to pay their water bills; and demands that Ofwat take immediate action to protect consumers from the excesses of the private water companies."

How weird air provides the crunch

David Blackwell examines Ricardo's drive into the North American automotive market

A small engineering company in Detroit saved Kelloggs millions of dollars on the cost of making cornflakes through computer studies of the airflow through the cereal ovens.

Mr Robert Nelson, one of the founders of Airflow Sciences, recalled the US multinational's reaction to modifications that lifted cornflake production at Battle Creek, Michigan, from 80lbs to 200lbs a minute. "They shut down public tours of the plant – they felt they would be giving away too much."

Airflow, which looks at fluid flow and heat transfer problems, was bought last March by Ricardo, the UK consulting engineers, for $2.26m (£1.48m). Mr Christopher Ross, Ricardo chief executive, described it at the time as a company with few competitors, operating in a field that the group already understood and could manage.

This fits well with the group's recent direction, as well as enhancing its drive into North America – a market where it sees strong potential growth.

The North American automotive industry, which accounts for almost a third of turnover at Airflow Sciences, is returning to growth after deep recession. It is looking to improve what is known as the NVH (noise, vibration and harshness) performance of its vehicles.

The big US manufacturers, which were a long way behind the Japanese on NVH, are seeking out independent consultants rather than using in-house staff and equipment. They can then benefit from the breadth of knowledge that gets stored over the years. Mr Ross believes the group is now in a position to offer a service on everything to do with a vehicle apart from designing the body shell itself.

Earlier this month, Ricardo, which has experienced 25 per cent organic growth in its automotive division over the last three years, continued its drive into North America with a deal to pay £13.6m for FF Developments, the company that built the transmissions for the Jaguar 220 and the factory-prepared Ford Escorts in the world rally championship.

FFD was founded in Coventry, England, in 1971 by Major Tony Rolt to apply four-wheel drive systems and anti-lock braking systems, which the group developed from the work of the pioneering Harry Ferguson. The FF of the name stems from "Ferguson Formula."

But Mr Stuart Rolt, the major's son and current chief executive, set up a division in Detroit in 1989 after Chrysler said it would not give the group business unless it was in the US. The Detroit arm now employs 140 compared with 90 in Coventry.

Realising that the interest in four-wheel drive had probably peaked, he took the company into automatic transmission design and development and chassis engineering. "Most of our business is not four-wheel drive any more" he said in Detroit.

The latest acquisition will substantially boost Ricardo's presence in the US, where it had no physical presence until 18 months ago, although it opened a consultancy in Detroit in 1992.

But its most significant move before the acquisitions was to invest $4m in an engine testing facility in Chicago.

The company had found the volume of business coming from North America disappointingly low, considering there was obviously a large amount to be had. However, North America is a myopic market. The US motor industry likes to deal with people near home. "Our presence on the ground greatly increases their willingness to work with us," said Mr John Needham, acting president of Ricardo North America.

Testing airflow on a flat backed helmet as used by racing drivers

The test beds have been sited in Chicago rather than Detroit so that the group can tap into both the Detroit automobile industry and the heavy duty engine plants of Iowa, Illinois, Wisconsin and Indiana, where engines are made for construction, agricultural and marine equipment and power generation.

Two test beds are now running, and are fully booked until the end of September. Ricardo is planning to have five running within the next five years.

The amount of data collected by the test bed computer in one minute of running a single engine is enough to fill 10 computer floppy discs. By the time it is resolved into useful information, it can fill 50.

Mr Needham pointed out that the new facility was still earning its stripes, but promises of repeat business were already appearing. "The potential for growth is quite exciting," he said. "We have the skill base, the technology and the products."

Airflow Sciences, aside from speeding up the flow of cornflakes through Kelloggs' ovens, relies on the automotive industry for 30 per cent of sales. Near the office where the latest computers work through complex mathematical models is a building where the results are applied – a world of disembowelled cars, where technologists modify with sticky tape and cardboard parts such as the plastic ducting that demist windscreens.

The computer's answers to problems often raise eyebrows. Sometimes they are greeted with disbelief, as happened when the company was asked by Bell Helmets to look at the airflow over US racing drivers' crash helmets.

Three years ago, drivers in the open cockpit Indianapolis cars found that they could not use full power as their heads were vibrating so violently that they could not see. Mr Robert Gielow, Airflow founder and president, ran some tests and suggested a tiny raised V should be built into the sides of the helmets.

That worked well, but since then the company has developed a flat back helmet that has dramatically reduced the 50lbs of lift which the airflow was putting on ordinary helmets at top speed. Initial resistance to the strange shape waned rapidly, and it is now used by many top names including Emmerson Fittipaldi and Al Unser Jr.

The attraction of the company to Ricardo was its ability to apply computational fluid dynamics outside the automotive industry. It has done work to improve the flight of golf balls and the decaffeination of coffee, in the medical and cement industries, on the cold airflow inside refrigerated trailers and the drag outside, and on the airflow of the Channel Tunnel rail cars. But the main target is the US power industry, where legislation on emissions is helping to provide good business.

At one power station the computer's suggested placement of baffles in an exhaust flue reduced particulate emissions from more than 30 per cent to such a low level that observers thought their measuring equipment had broken.

"Just a little baffle – it seems so trivial," said Mr Nelson. But the dramatic result, which would have taken years to find through trial and error, certainly justified his enduring belief that "air is weird."

Trinity agrees Malaysian bus joint venture

By Tim Burt

Trinity Holdings, the UK's leading specialist vehicle manufacturer, yesterday signed a £3.5m joint venture deal to supply and build buses in Malaysia.

The company claimed that the agreement with the UMW manufacturing group represented one of the first Anglo-Malaysian trade deals since the Kuala Lumpur government imposed an embargo on offering government contracts to British companies last February.

Mr Geoff Hollyhead, chairman, said Trinity would retain 35 per cent of a joint venture company which aims to build 600 buses a year for the Malaysian market.

The buses will be assembled from kits supplied by Trinity subsidiaries – Dennis Specialist Vehicles and Duple Metsec.

In addition to payments for the kits, the company will receive £700,000 annually in transfer technology fees for five years and share in the joint venture's profits.

Mr Hollyhead said total demand could exceed 30,000 vehicles.

A new plant will meet both local demand and serve markets elsewhere in the Asia-Pacific region.

DIVIDENDS ANNOUNCED

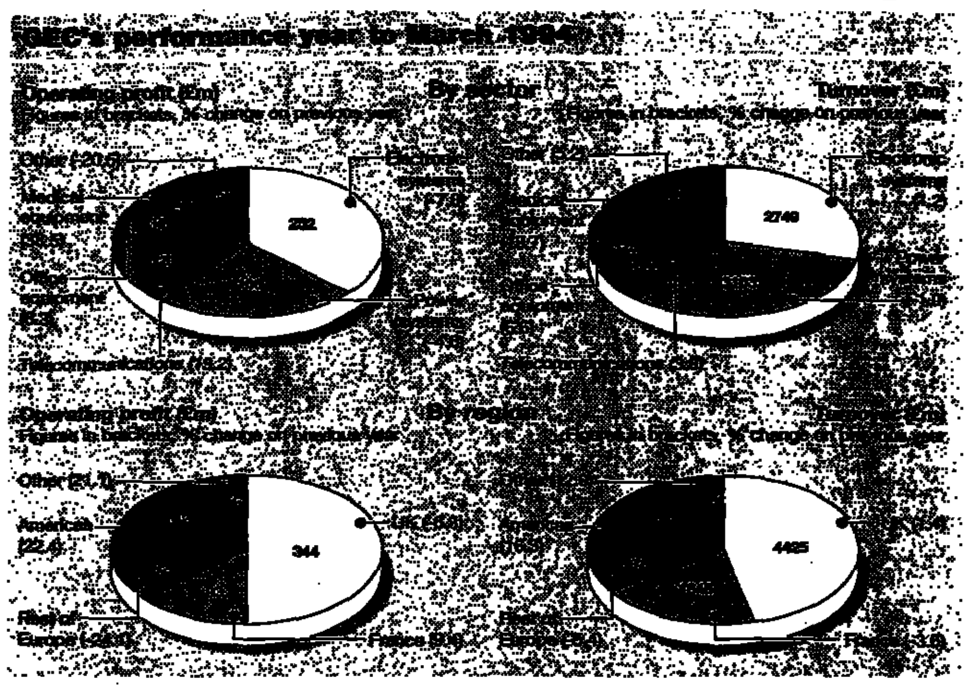
		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Bespak	fin	6	Oct 6	6	10.2	10
Bogod ♠	fin	0.5	Oct 3	0.5	0.7	0.7
Border TV §	fin	2.4	-	2	4	3.3
Dixons	fin	4.9	Oct 3	4.6	6.6	6.2
Dudley Jenkins §	fin	2.205	Oct 7	2.1	3.255	3.1
GEC	fin	8.01	-	7.62	10.82	10.3
Northamber	fin	0.8	-	0.6	0.8	0.6
Taunton Cider	fin	3.95	-	3.6	6.6	6

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ♠On A shares

Poorly performing non-strategic companies likely to be sold

GEC moves on manufacturing

By Bernard Gray



GEC intends to rationalise its portfolio of general manufacturing companies to improve its profitability and focus. Poorly performing companies which are not part of GEC's strategic operations will be sold if their profitability cannot be improved.

Lord Weinstock, GEC's managing director, said that in addition to its three core businesses of telecommunications, electronics systems and power systems, the company was setting up an industrial group to encompass the rest of its operations.

Some businesses within that, notably the petrol pump manufacturer Gilbarco and the ink-jet printer maker Videojet were doing extremely well and would be developed further.

Others would either have to improve their profitability or be sold. "It is not enough to be a me-too manufacturer any more. We have to be in those busineses where we have sufficient presence to make an acceptable return," he said.

The industrial group of businesses were responsible for some of the difficulties which led to profits being only slightly ahead of last year at £866m. However, the final dividend was increased to 8.01p (7.62p) making a total of 10.82p (10.3p) for the year.

Profits were some £70m below the company's own earlier expectations for a variety of reasons. A US-based semiconductor operation, GEC Plessey Semiconductors, reported a small loss, some £17m below GEC's budgeted level. Restructuring charges cost £8m in the power controls business and poor market conditions hurt the cables and weighing operations. Currency effects cost a further £10m.

Elsewhere, development costs of the in-flight entertainment system, which is due to be supplied for the Boeing 777 aircraft, cost £20m more than anticipated. To avoid the possibility of the system being late more staff have been assigned to the project.

Of GEC's three main divisions, power systems saw operating profits fall by £8m to £166m, on sales of £3.1bn (£3.14bn), but the profitability was distorted by pre-payments for power stations, which reduced operating profits but increased interest income. Pre-payments increased the GEC Alsthom's working capital by £511m to negative £665m. The joint venture achieved record results and margins improved to 7.6 per cent (7.1 per cent).

The electronics systems business, which includes the defence interests, saw operating profits fall to £252m (£271m) on sales of £2.75bn (£2.72bn). Order intake was below the previous year and the outstanding order book has fallen 7 per cent to £4.5bn. Margins were squeezed because development costs are still at a high level on avionics systems for the Eurofighter 2000 and the Boeing 777, while deliveries have not yet started.

In telecommunications, GPT's operating profits rose more than 13 per cent to £120m even though turnover only increased marginally to £1.05bn. With business on the System X digital exchanges for BT running down, the division has had to switch to other business ranging from switching software, through the development of advanced telecoms transmission systems in co-operation with Siemens, to the manufacture of payphones.

GKN invests £50m in joint venture with Fiat

By John Griffiths

GKN, the motor components and industrial services group, is to invest £50m in a joint venture with Fiat which will supply the Italian vehicle maker with key driveline components from a new factory near Florence.

GKN will hold 85 per cent of GKN Component Firenze with Fiat Auto holding the balance. It will initially take over an existing Fiat business making constant velocity joints and driveshafts under GKN licence at Novoli in Florence.

This site, which employs 700, will remain under Fiat's ownership. It will stay in production until the new plant is brought on stream at the end of next year at Campo Bisenzio, 15km west of Florence, to which most of the work force is expected to transfer.

The new venture will supply components for Fiat's car plants in Italy and eastern Europe, with the possibility of non-Fiat customers being added later.

David Lloyd buys

David Lloyd Leisure has acquired two sports and leisure clubs located at Bournemouth and Ringwood, Hampshire, from Lanz Holdings and Lanz Leisure. The price is £3.86m cash, with up to a further £0.56m payable on or before October 1996.

Record £7bn raised by flotations in first half

By David Wighton

A record £7bn was raised by UK and Irish companies floating on the London Stock Exchange in the first half of the year. The figure was three times the amount raised during the same period last year and more than the total of £5.9m for the whole of 1993.

The first half's 141 new entrants was only 39 short of 1993's record of 180.

Despite the turbulent market conditions, 25 companies joined the Official List in June but there has been a slowdown of new issues in the pipeline.

Mr Nigel Atkinson, head of listing at the Stock Exchange, said: "With new issuers becoming more cautious in the light of the current market uncertainties, we may have to wait until conditions have settled before seeing a resurgence."

The strongest share price performance was from Utility Cable, which more than tripled in the three months following its listing. Mithras Investment Trust shares have risen 75 per cent and Trafficmaster by 42 per cent.

Flotations on the continent raised a total of £12.3bn in the first five months of the year which included several large privatisations. But only 32 new companies joined the large European Union exchanges in the period, compared with 90 in London, excluding investment trusts.

BDA chairman faces threat of removal

By Gary Evans

Two non-executive directors of BDA Holdings are requisitioning an extraordinary general meeting to oust Mr Brian Duker as chairman and chief executive of the property investment and development group.

Mr Richard Wollenberg, BDA's non-executive deputy chairman and Mr Nigel Jamieson together hold about 3.1 per cent of the company, while Mr Wollenberg is also a director of Village Residential, which has a 13 per cent stake.

Mr Wollenberg said BDA needed to expand its interests and he had "lost confidence in Mr Duker's ability to take the company forward". He claimed support from shareholders, including several large institutions, speaking for 51.33 per cent of the votes.

Mr Duker, who controls about 24 per cent of BDA, said he had "brought the company back from the brink of disaster over the last few years". He said he would be writing to shareholders in due course.

In April, BDA reported a turnround from £1.16m losses to pre-tax profits of £152,000 in the year to end January 1994, after a release of property provisions of £100,000, compared with a £1.2m charge before.

Danae lifts net assets

Danae, the split capital investment trust, reported a net asset value of 74.78p per capital share as at May 31, a rise of some 28 per cent. Earnings were 7.98p (7.8p) per income share. The total dividend is held at 7.95p via an unchanged final of 4.575p.

David Smith makes £15.5m acquisition

David S Smith, the packaging, paper and office products group, is buying Ashton Corrugated from Otor, the private French packaging group, for £15.5m cash.

At completion Ashton's book assets were valued at some £21m including about £4m of working capital. In the year to December 31 the company incurred an unspecified loss on turnover of £31.7m.

Mr Peter Williams, Smith's chief executive, said the deal would initially be marginally earnings dilutive but "we expect a useful future profit contribution."

Ashton specialises in die cutting and pre-printed corrugated board, mainly for the food processing industry, from locations in Bristol, Strathclyde and Derbyshire.

The shares rose 2p to 475p.

NEWS DIGEST

Record year for Border Television

Border Television, the Carlisle-based independent television company, reported record profits for the first full year under the new franchise arrangements with a 32 per cent increase in profit from £1.25m to £1.64m.

Turnover for the USM-quoted company fell to £9.87m (£11m) as a result of the loss of Channel Four airtime sales. Earnings per share came out at 12p (8.3p) and a proposed final dividend of 2.4p makes an increased total for the year of 4p (3.3p).

Mr Melvyn Bragg, chairman, said that in the second quarter of this year the company's share of ITV advertising had grown significantly and he looked forward to a gradual improvement as the year progressed.

However the costs of setting up the two commercial radio stations in which the company is involved, Central Scotland Radio and Radio North East, were expected to have an impact on the results for the year.

Surrey seeks £2.1m as losses reduce

Surrey Group, the bookmaker, is seeking £2.1m to cut gearing and for expansion. The USM-quoted company also announced reduced pre-tax losses for the year to March 31 of £292,000, compared with £1.38m.

It is issuing 92.7m shares in a 1-for-2 rights issue and placing a further 85.7m shares, both at 1¼p. Its shares were unchanged yesterday at 1½p.

Of the rights, commitments have been received to subscribe for 17.2m shares and the balance underwritten by Ellis & Partners.

The reduced loss was achieved on turnover down from £47.1m to £35.5m as a result of the sale of 28 betting shops in early 1993.

TDG sells Unilink for £11.5m

Transport Development Group is selling Unilink Contract Hire, which is involved in the rental of vehicles and trailers, to Ryder for £11.5m cash.

In 1993 Unilink reported profits of £1.4m before tax and group finance charges and the assets being acquired are valued at £7.7m.

Northamber back in the black

Northamber, the supplier of computer hardware and software, maintained its first-half improvement to end the year to April 30 with pre-tax profits of £669,000, against £973,000 losses previously. Turnover on continuing operations climbed by 18 per cent to £114.5m.

Profits included an exceptional surplus of £96,000 from the sale of a property bought in 1985. Earnings per share were 3.1p (3.9p losses) and the single final dividend has been raised from 0.6p to 0.8p.

Waterhouse losses deepen to £0.2m

Further losses at its Midlands business helped push Waterhouse, the USM-quoted office fitting company, further in to the red in the six months to end-March giving a deficit for the period of £200,890 against £51,114 previously.

The outcome was struck on turnover down from £1.13m to £1.2m, and at the operating level there was a loss of £147,357 (£25,123). The Midlands business was responsible for £126,759 (£91,228) of that deficit. Losses per share came out at 8p (2p).

However, as announced on June 7, the Midlands business is to be disposed of by way of a management buy-out, the terms of which were revealed by Waterhouse yesterday.

The value of the net assets being disposed of amounts to £64,948. The proceeds of the sale, which is subject to shareholders' approval, will be used to reduce indebtedness and to provide working capital.

The shares closed down 3p to 33p.

P&O Hungarian acquisition

P&O Trans European, part of the Peninsular and Oriental Steam Navigation Company, has acquired Dunatras, the Hungarian transport and distribution company.

The deal is part of P&O Trans European's strategy to build a pan-European distribution network.

BZW invites bids for Burmah shares

BZW plans to sell the shares it has agreed to purchase under its cash offer in respect of Burmah Castrol's enhanced share alternative through a strike price auction.

On Tuesday, BZW received acceptances of its cash offer in respect of 46.8m ordinary shares, representing 26 per cent of elections under the enhanced share alternative.

Dudley Jenkins advances to £0.9m

Pre-tax profits at Dudley Jenkins Group increased by 16 per cent from £779,000 to £903,000 in the year to April 30 on sales up 19 per cent at £12.6m.

Mr Tylan Bahcheli, chairman of this USM-traded supplier of direct mail services, said there was a general feeling among clients that economic conditions were showing signs of improvement. The company has responded by investing in more databases.

The dividend for the year is increased to 3.255p (3.1p) via a final of 2.205p. Earnings per share were 5.01p (4.53p).

Melville completes exhibition sale

Melville Group has completed the sale of its UK exhibition services activities, trading under the name Melville Exhibition Services, to Estatepark Enterprises for up to £11.4m.

The consideration comprises £9.4m cash, £1m in loan notes and a deferred element of £1m payable in certain circumstances if the purchaser's share capital is sold or listed.

Melville directors said the sale was a "significant step" in completing the company's full restructuring – the shares will remain suspended.

Bogod makes progress

Bogod Group achieved some progress in the second half of the year to March 31, enabling it to report a small rise in pre-tax profits from £232,000 to £242,000 on sales up from £5.72m to £6.77m.

In the first half the group, which sells sewing machines, parts and accessories, had seen profits fall from £105,000 to £74,000 pre-tax.

The dividend for the year on the A shares is maintained at 0.7p, via a final of 0.5p. Earnings came to 2.92p (2.58p).

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.40	21.10	23.44
0100	11.58	11.91	14.24
0130	11.58	11.91	14.24
0200	11.58	11.91	14.24
0230	11.58	11.91	14.24
0300	11.58	11.91	14.24
0330	11.58	11.91	14.24
0400	11.58	11.91	14.24
0430	11.58	11.91	14.24
0500	11.58	11.91	14.24
0530	11.42	14.10	14.10
0600	11.72	11.59	13.93
0630	11.72	11.59	13.93
0700	22.45	23.38	25.71
0730	23.86	24.06	26.40
0800	23.90	24.31	26.73
0830	30.73	24.81	27.36
0900	25.02	27.44	30.32
0930	38.58	28.77	31.98
1000	40.87	40.73	44.10
1030	40.88	41.06	44.53
1100	40.95	38.19	41.74
1130	41.12	38.82	42.63
1200	41.25	38.97	42.70
1230	41.15	38.22	41.75
1300	31.73	29.03	32.27
1330	30.92	38.93	41.89
1400	30.04	38.21	40.88
1430	28.90	25.49	28.19
1500	24.94	25.41	28.09
1530	24.93	25.69	28.45
1600	24.98	35.52	38.54
1630	33.73	37.20	40.63
1700	47.20	37.86	41.23
1730	47.15	36.81	40.11
1800	38.80	34.79	37.80
1830	24.89	24.46	26.90
1900	24.88	24.18	26.53
1930	23.80	24.14	26.48
2000	23.51	24.13	26.46
2030	23.61	23.39	25.72
2100	23.61	23.39	25.72
2130	23.80	37.51	39.85
2200	31.26	37.51	39.85
2230	34.44	37.51	39.85
2300	23.20	37.51	39.85
2330	23.61	20.68	22.96
2400	22.12	23.39	25.72

[illegible]

Competing on a level playing field

British Vita has been lured into Poland by its low production costs, reports Christopher Bobinski

Western Poland, much of which was part of Germany before the second world war and retains excellent road, rail and canal links to the west, is rapidly becoming a preferred location for foreign investors.

Unusually, it has also attracted a growing number of British industrial investors who, thus far, have generally been slow to invest in former communist central Europe.

Significantly, the attention of one of the latest British investors, British Vita, was attracted by executives at its German subsidiary.

If Mr Marek Krojcig, a mild-mannered Polish entrepreneur with a ready smile, hadn't turned up to buy blocks of foam for cash five years ago at Veenendaal, British Vita's German foam operation, the UK-based company might conceivably not now be the proud owner of a brand new polyurethane foam production facility at Brzeg Dolny in western Poland.

For it was Mr Krojcig's return visits, each time with a suitcase full of D-Marks, which attracted the attention of Mr Joachim Gronebaum, the managing director of Deutsche Vita.

Two years later, in December 1992, it led to the establishment of Krojcig Mebel, a foam-cutting and marketing joint venture at Zielona Gora, also in western Poland.

Mr Krojcig's success in selling the foam to Poland's furniture producers, both large state-owned companies and small producers, pointed Vita in the direction of building its own plant in Poland, duly opened last month.

"We saw that the furniture businesses we were supplying in Germany were moving their production to Poland and decided to go with them," says Mr Rod Sellers, British Vita's chief executive. "We also recognised Poland's relative political stability and prospects for growth as well as geographical location near to the Czech Republic and on the way to the former Soviet Union," he adds.

Others have followed this path. BOC owns a technical gases facility next door to the Vita Polymers Poland plant at Brzeg, as part of its $90m (£59m) investment plan in Poland. Paterson Zochonis of Manchester has a Cussons Imperial Leather soap factory in nearby Wroclaw where Cadbury Schweppes is building a chocolate plant. Coca Cola has sited one of its main bottling plants at Sroda Slaska in the vicinity.

At Brzeg, Vita's 9,000 tonne annual capacity foam fabricating plant is located just across the fence from the giant Rokita chemical works built during the second world war by IG Farbenindustrie to produce poison gas.

Now Rokita not only pipes energy and nitrogen to Vita Polymers, but also supplies polyol, one of the main raw materials for the foam. TDI, the other raw material, comes from Zachem in Bydgoszcz in the north, a plant which itself produces foam and is a direct competitor.

Mr Sellers cites the fact that the main raw materials for production are present in the country as another reason for taking the decision to invest. But Brzeg will also be looking to companies like Dow Chemical and Rhone Poulenc to provide one third of supplies.

For all the confidence about the future, British Vita has been very careful not to overspend on the project which has cost $8m to date, of which $5m went on the construction of the 12,000 sq m plant.

This is roughly 25 per cent of what a similar plant would have cost in the United Kingdom. The work was done by local contractors, with the machinery coming mainly from Laader Berg in Norway. The small labour force of about 30 at Brzeg will also be earning about one eighth of the wages of their British counterparts.

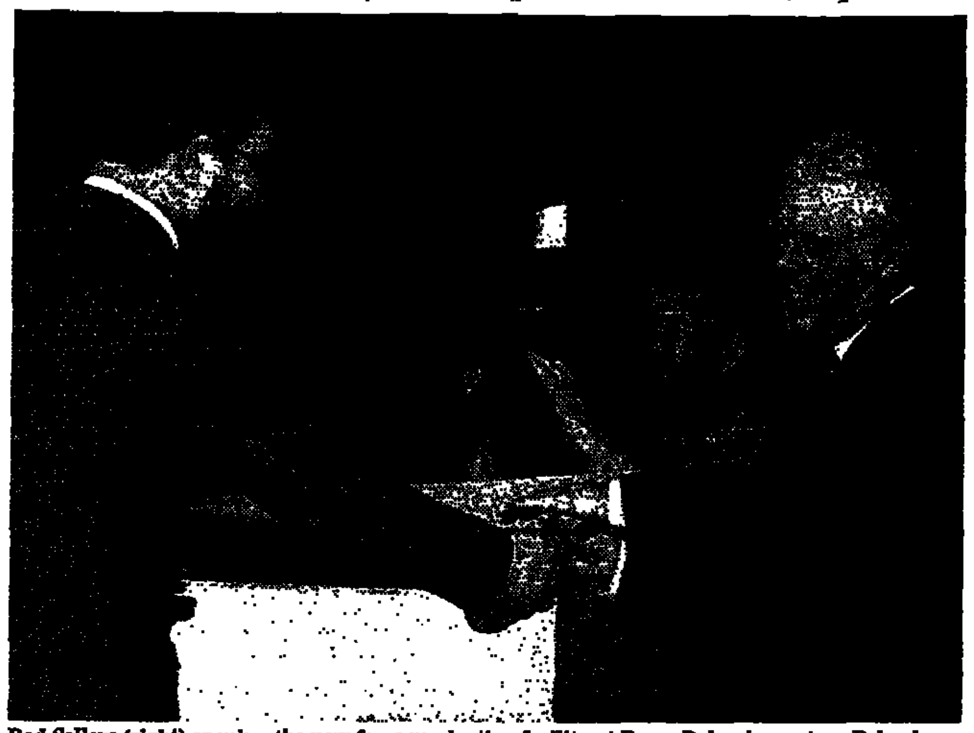
For the moment, however, all Vita's main competitors in Poland have similar advantages in a Polish market estimated to be worth $75m a year.

Up to 30,000 tonnes a year of foam is now produced domestically, and a further 4,000 tonnes is imported. The two existing Polish competitors are Zachem in Bydgoszcz and Organika in Malbork. They are flanked by Polopren, a German joint venture in Zgierz and Polymer Gdansk, an Australian venture.

But, in an interesting sign of the times, current producers are facing another private sector challenge from Mr Stanislaw Kremona, an independent Polish entrepreneur who farms in the lush, undulating countryside 12km from Brzeg Dolny, and has now built his own foam factory.

The facility, which came on stream last year, has an annual capacity of 20,000 tonnes, but Mr Kremona is believed by his competitors to be producing well below capacity.

For British Vita, Mr Kremona's plant represents no more than a small cloud in an otherwise blue sky. But the fact that an individual Polish entrepreneur is capable of putting up a plant of this size and sophistication shows how far the Polish private sector has developed in the five years since the fall of communism.


Rod Sellers (right) opening the new foam production facility at Brzeg Dolny in western Poland

Bespak blames problems in US for 38% fall

By David Blackwell

Continuing difficulties in the US healthcare market were behind a 38 per cent fall in profits at Bespak, the medical equipment manufacturer.

Mr Peter Chambre, who took over as chief executive in May, described the year as "very poor". While his objective was to return the company to growth, the markets were not going to get a lot easier.

Pre-tax profits fell from £11.5m to £7.1m for the year ended April 29.

Sales increased from £61.8m to £64.9m. However, the latest figure included a £3m contribution from Medix, the breathing equipment manufacturer acquired in May last year, and a £3m currency gain.

The shares, which were over 500p this time last year, closed down 15p at 290p yesterday.

Operating profits in the US-based Tenax Corporation, the maker of plastic medical components acquired in 1992, were down 75 per cent in spite of a cost reduction programme and the loss of 50 jobs.

US sales were down 14 per cent to $45m, while sales to US Surgical, the company's biggest US customer, fell 44 per cent on continued destocking and increased competition.

Sales in the UK rose by 18 per cent, but operating income declined 2 per cent and margins fell from 17.3 per cent to 14.4 per cent. This reflected a change in the sales mix at Bespak UK, which makes pharmaceutical and personal care dispensing equipment.

Sales of pumps and valves to the personal care market rose by 21 per cent to £10m. However, the group was unable to meet overall demand for pumps, and had to buy some in, hitting profitability.

Medix had not proved nearly as profitable as expected, and had had to take a new nebuliser off the UK market because of technical problems.

Mr Chambre said the group was looking for growth from dispensers for respiratory drugs in the form of dry powder, and from valves developed for non-CFC propellants – areas which mainly accounted for £2.5m spent on product development during the year.

He believed that sales were starting to improve in both the UK and the US. While the pharmaceutical trading environment had changed for ever, Bespak was in a strong position to benefit from any upturn.

Earnings per share fell from 31.9p to 19p. An unchanged final dividend of 6p is proposed, taking the total for the year to 10.2p (10p).

Chase raises stakes in T&N battle

By Tim Burt

Chase Manhattan, the US bank, has raised the stakes in its legal battle with T&N over asbestos contamination of its New York headquarters by appointing one of the country's leading lawyers to prepare its case.

The bank said that Mr Arthur Liman, senior partner at Paul, Weiss, Rifkind, Wharton & Garrison, would head the legal team overseeing its $185m damages case against T&N, which as Turner & Newall was formerly UK's leading asbestos supplier.

Mr Liman, regarded as one of the country's most combative lawyers, acted previously as chief counsel to the US senate committee investigating the Iran-Contra affair. In that role he questioned former officials from the Reagan administration including Col Oliver North and Mr Robert Mcfarlane. He also represented Mr Michael Milken, the former head of the junk-bond department at Drexel Burnham Lambert, who was jailed in 1990 for securities fraud.

The T&N case centres on allegations that the British company knew that asbestos spray installed in Chase Manhattan's New York offices was hazardous.

T&N, which denies liability, declined to comment yesterday.

Norwegian buy for Newman Tonks

Newman Tonks, the building products group, has purchased Bergen Lasservice for a maximum consideration of NKr20m (£1.9m) cash.

Bergen Lasservice, a locking system and electronic security specialist, is based in Bergen, Norway, and in the year to end-December 1993 made a pre-tax profit of NKr2.9m on turnover of NKr17m.

PUBLIC WORKS LOAN BOARD RATES

Effective July 5

Years	Quota loans* 'Lower' quota rates EPI†	A††	maturity§	'Higher' quota rates EPI†	A††	maturity§
1	-	-	5¾	-	-	5⅞
Over 1 up to 2	6⅛	6⅛	7¼	6¼	6¼	7⅜
Over 2 up to 3	6⅞	6⅞	8	7	7	8⅛
Over 3 up to 4	7⅜	7½	8⅜	7½	7⅝	8½
Over 4 up to 5	7¾	7⅞	8⅝	7⅞	8	8¾
Over 5 up to 6	8⅛	8¼	8⅞	8¼	8⅜	9
Over 6 up to 7	8¼	8⅜	9	8⅜	8½	9⅛
Over 7 up to 8	8½	8⅝	9	8⅝	8¾	9¼
Over 8 up to 9	8⅝	8¾	9	8¾	8⅞	9⅜
Over 9 up to 10	8¾	8⅞	9	8⅞	9	9⅜
Over 10 up to 15	9	9	9	9¼	9⅜	9⅜
Over 15 up to 25	9	9	8⅞	9⅜	9⅜	9¼
Over 25	8⅞	8¾	8¾	9¼	9⅛	9⅛

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

COMMODITIES AND AGRICULTURE

RSPCA puts its mark on humanely-produced food

By Deborah Hargreaves

Britain's Royal Society for the Prevention of Cruelty to Animals launched its "Freedom Food" label yesterday, which it hopes will encourage farmers to improve standards of animal welfare. The mark will be applied to eggs and pork where animals have been reared and treated according to guidelines laid down by the charity.

The RSPCA hailed the initiative as "allowing farm animals to take the first step back from the factory to the farm". But the standards adopted were criticised by other animal welfare groups as being too lax.

For example, the RSPCA does not specify that eggs must come only from free-range chickens, but that barn eggs are acceptable as long as the birds have enough space.

Mr Mike Sharpe of Freedom Food argued that the guidelines were based on five years of research into welfare issues and adapted in a way that farmers would stick to. The organisation draws up a plan for each participating farm, tailoring the guidelines to each individual situation.

"It's the beginning of a revolution in farming practice by linking the good, caring farmer directly to the consumer," said Mr Sharpe. So far he has signed up 200 large producers with Tesco and the Co-op agreeing to stock the produce.

Freedom Food will conduct yearly inspections of the registered farmers as well as random checks to ensure that standards are being met.

The RSPCA maintains that consumers are prepared to pay a premium for food that they know comes from well-treated animals. It hopes to extend the scheme to beef, lamb and dairy products later in the year.

Mr Mike Baxter, an animal welfare expert from Brunel university said: "Freedom Food's standards are the most comprehensive in existence and most rigorously derived from scientific experience".

Russia establishes domestic gold market

By Jill Barshay in Moscow

The Russian Government has formally established a domestic gold market through an executive resolution, the Russian newspaper Kommersant reported yesterday.

Officials from the State Committee of Precious Metals were caught unaware that gold and silver would soon be freely traded in Russia. A government press officer confirmed the existence of the resolution, but said that it had not yet been distributed to relevant authorities.

According to the resolution, the new market will be highly controlled; only a limited number of banks, specially licensed by the central bank, will be permitted to trade a small sliver of Russia's newly minted gold. Most of Russia's freshly produced gold will still be governed by the old state order system and go directly from mining enterprises to the State Committee of Precious Metals for Russia's gold reserve.

It was not clear when the new market would open or what kind of quality guarantees would cover the gold bars being traded.

Nevertheless, Russian observers saw the plan as a positive step toward establishing "a civilised market for gold and other precious metals", where none had existed, and "stimulating foreign investment".

They said they believed the maintenance of a high level of state control was necessary to build up Russia's gold reserves, which have been run down over recent years, to prove the countries credit worthiness to the West.

In the newly established market, the licensed banks will act as intermediaries between the real buyers and sellers, from jewellers and industrial buyers to speculators and investors.

Oceans set to yield up their treasures

Canute James reports on the agreement of an international code of conduct for seabed mining after 11 years of negotiations

After 11 years of tortuous and often contentious negotiations, agreement has been reached on a code of conduct for mining the international seabed.

The agreement, which hinged on convincing industrialised countries that commercial principles would be observed, is to be be adopted by the United Nations general assembly this month. It will allow the establishment of the International Seabed Authority, a new UN agency, which will administer the Law of the Sea Convention, and will create the Enterprise, the authority's commercial arm, which will oversee exploration and mining through joint ventures among private companies and states.

The agreement will also create a tribunal that will adjudicate disputes over seabed mining among states and companies.

The authority and the Enterprise will be located in Jamaica, while the tribunal will be in Hamburg, Germany.

At the centre of the debates in the UN Law of the Sea Conference, which sought general acceptance of the convention are the trillions of dollars worth of polymetallic nodules that are lying on the international seabed, outside the 200-mile economic zone of any country. The nodules contain copper, nickel, manganese and cobalt, and varying quantities of other minerals.

"The intention was to find an orderly method of dealing with minerals located on the international seabed," says Mr Kenneth Rattray, rapporteur general of the Law of the Sea Conference.

"Since these minerals are outside the economic zones of states, it was important to have an acceptance by all countries that the minerals did not belong to any one state or private company, but were the common heritage of all mankind.

"This is an attempt to avert anarchy in mining the international seabed and to permit orderly exploration and exploitation within a regulatory framework."

> 'This is an attempt to avert anarchy in mining the international seabed'

While developing countries have always been in favour of a convention to regulate the mining of the international seabed, the discussions were protracted because of reservations that industrialised states had about the commercial feasibility of the proposals, and about the sharing of costs and benefits. In its original form the Law of the Sea Convention was not clear on the role private business would play in seabed mining, and on how the technology would be obtained.

Fundamental changes in the world economy, the move by governments away from central planning to market-based economies and the growing role for private business, all precluded the creation of an economic agency in which only governments would be involved.

Under the draft of the convention, the Enterprise was to have been funded by the member states based on subscriptions and loans, with the first mining venture estimated to cost about US$1bn. "Philosophical and economic arguments indicated that this was not the most desired method, so it was agreed that the first operation of the enterprise will be done as a joint venture with the partners providing the investment, on the now accepted basis that the international seabed is the common heritage of mankind," explains Mr Rattray.

"The enterprise is the only way for poorer countries to participate. Some developed states wanted the Enterprise to be abolished, but it was agreed that after its first venture the Enterprise will begin operating on a purely commercial basis."

There were also concerns among the industrialised states about the transfer of technology. Since private business, and not governments, own the technology, members of the UN were unable to get access to it. In the accord, it has been accepted that if the technology is not available on the market at commercially fair terms, governments would co-operate with the International Seabed Authority to make it available. "This is intended to give the Enterprise a jump start," says Mr Rattray.

One of the more fundamental concerns about seabed mining, and in which both developed and developing countries had common concerns, was the affect the extraction of the polymetalic nodules and production of the minerals would have on land-based producers.

While most states eschewed production ceilings, saying this method was an echo of central planning, land-based producers argued that there could be unfair economic practices in seabed mining, which could lead to a flooding of markets and depressed prices. There will be no production limits, but the principles of the General Agreement on Tariffs and Trade on unfair competition have been adopted in the Law of the Sea Convention.

Production plans will include an estimate of the maximum quantity of minerals to be produced each year and there will be a compensation fund for land-based producers who are adversely affected by seabed mining.

"The original expectation when the conference began 11 years ago was that seabed mining would have started by 1998," says Mr Rattray. "This was not achieved because of real and philosophical changes in the world economy. With this agreement, commercial production from the seabed is now expected to begin in another 10 years."

Rubber pact talks will aim to break price deadlock

Key rubber producing and consuming states will meet in Kuala Lumpur next week to try to break a deadlock over a new price-stabilisation pact, delegates to the meeting said, reports Reuter from Singapore.

The rift over pricing blocked efforts to renegotiate the International Natural Rubber Agreement at the last UN-sponsored talks in Geneva in April.

Delegates said a high-level working group including the top three Asian producers would meet informally from July 12 to 14 ahead of another round of talks in Geneva. The group comprises Indonesia, Malaysia, Thailand and the top three consumers – Japan, the European Union and the US.

The dispute centres on the reference price, which guides market interventions by the buffer stock manager of the International Natural Rubber Organisation. Consumers want it held at or near the level at the end of the current accord. Producers want it raised, but have not said by how much.

Germany plans second banana quota challenge

German economics minister Mr Guenter Rexrodt said yesterday that Germany would launch a second European Court case over new European Union banana import quotas, which it claims unfairly disadvantage its traditional Latin American suppliers, reports Reuters from Bonn.

"[The German government] will ask the European Court to review the legality of the new export quota regime," a statement from Mr Rexrodt's ministry said.

"I stick to my view that the export quota agreement infringes aspects of EU and Gatt law," Mr Rexrodt added.

The court's Advocate General has already recommended in an official opinion rejection of a German case already running. The final judgment on that first case is due on October 6.

A ministry official said the second case would contend that the quota decision was invalid because it had not been brought before the EU's Council of Ministers.

Germany says that the EU banana import rules, which came into force last July, are biased in favour of former EU colonies in the African, Caribbean and Pacific group.

The rules allocate a 30 per cent share of the EU market to ACP producers and limit imports from Latin America, often called "dollar bananas" because many of the plantations are owned by US companies.

Germany claims the regulations give British and French importers with traditional links to ACP countries an unfair advantage. It says they have prompted a big rise in the price of bananas in Germany, causing sales to drop by 25 per cent.

Mr Rexrodt said jobs in German ports and in the producer countries were being endangered by the quota system.

"The absurdity of the regime can be seen in the fact that a support system for ACP bananas has been passed to counter the sealing-off of the EU market, which has already taken place," he said. He added that it was doubtful that ACP producers were even in a position to fulfil their quotas.

MARKET REPORT

Base metals prices end lower after see-sawing day

Base metal markets finished a day of see-saw movements largely lower at the London Metal Exchange as prices responded to short-term speculative influences.

But traders said markets such as COPPER and ALUMINIUM retained a sound undertone and were ready to retest the upside resistance at which their recent rallies had stalled.

London Commodity Exchange robusta COFFEE futures finished near the day's highs on the back of renewed talk about possible frosts in Brazil this weekend. But COCOA prices, which notched up good gains during the morning session, succumbed later to technically-inspired selling. "There are a few bears out there," said one trader. "When cocoa was knocked by selling pressure, the support turned out to be pretty weak."

Compiled from Reuter

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1482.5-83.5	1508-8.5
Previous	1493.5-94.5	1518-19
High/low	1486	1520/1496
AM Official	1485-86	1508.5-9.0
Kerb close		1501-2
Open int.	282,500	
Total daily turnover	44,557	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1487-92	1505-10
Previous	1487-92	1502-5
High/low		1515/1505
AM Official	1480-85	1497-500
Kerb close		1503-8
Open int.	2,933	
Total daily turnover	684	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	561-62	578-79
Previous	565.5-66.5	581.5-82.0
High/low		583/577
AM Official	564-65	581-82
Kerb close		580-2
Open int.	41,538	
Total daily turnover	7,231	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6135-45	6230-40
Previous	6175-85	6275-80
High/low		6250/6170
AM Official	6100-102	6190-95
Kerb close		6200-10
Open int.	58,266	
Total daily turnover	11,872	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5190-200	5270-80
Previous	5270-80	5350-55
High/low	5215	5340/5250
AM Official	5210-15	5290-95
Kerb close		5260-70
Open int.	19,061	
Total daily turnover	5,162	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	952.5-3.5	976.5-77.5
Previous	956-57	980-81
High/low		977/970
AM Official	947-48	971-71.5
Kerb close		975-6
Open int.	106,297	
Total daily turnover	17,896	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2460-61	2477-78
Previous	2471-72	2486-87
High/low		2485/2463
AM Official	2459.5-60.5	2476.5-77.0
Kerb close		2467-8
Open int.	232,478	
Total daily turnover	61,966	

■ LME AM Official £/$ rate: 1.5433
LME Closing £/$ rate: 1.5505

Spot:1.5505 3 mths:1.5485 6 mths:1.5480 9 mths:1.5474

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Jul	110.75	-1.00	111.75	110.60	3,875	806
Aug	111.05	-1.00	-	-	701	12
Sep	111.35	-1.15	112.50	111.25	34,955	5,879
Oct	110.85	-1.10	111.50	110.85	322	26
Nov	110.30	-1.10	-	-	245	-
Dec	109.75	-1.05	110.90	109.60	8,877	392
Total					54,889	7,537

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	384.25-384.75	
Opening	385.80-386.20	
Morning fix	385.75	
Afternoon fix	385.50	
Day's High	386.50-387.00	
Day's Low	382.50-383.00	
Previous close	386.60-387.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.10	6 months	4.61
2 months	4.20	12 months	5.09
3 months	4.29		

Silver Fix	p/troy oz.	US cts equiv.
Spot	344.60	531.75
3 months	348.80	536.05
6 months	353.25	544.75
1 year	364.65	561.00

Gold Coins	$ price	£ equiv.
Krugerrand	391-394	253-256
Maple Leaf	[illegible]	
New Sovereign	[illegible]	[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jul	383.4	-2.1	-	-	241	2
Aug	384.6	-2.3	387.8	383.2	71,477	27,152
Sep	386.1	-2.3	389.0	385.3	-	-
Oct	387.7	-2.3	390.8	386.2	6,087	888
Dec	390.9	-2.3	393.9	389.5	25,639	948
Feb	394.5	-2.3	393.5	393.5	7,443	5
Total					149,085	28,920

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jul	404.9	-5.3	418.5	407.0	514	45
Oct	406.9	-6.5	413.5	404.3	20,939	3,776
Jan	408.9	-6.5	416.5	409.9	1,862	95
Apr	412.9	-6.5	418.0	410.0	1,399	10
Total					24,714	3,926

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Sep	143.60	-1.65	145.40	143.30	4,746	1,063
Dec	143.35	-1.90	145.25	143.35	782	176
Mar	143.35	-2.15	-	-	129	20
Total					5,687	1,259

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int.	Vol.
Jul	523.2	-8.9	535.0	519.0	1,069	161
Aug	525.7	-9.0	-	-	-	-
Sep	527.5	-9.0	540.5	523.0	79,785	17,276
Dec	534.9	-9.0	547.5	530.0	22,314	1,541
Jan	536.8	-9.0	-	-	33	-
Mar	543.1	-9.0	548.5	540.0	8,464	21
Total					121,799	19,808

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	19.45	-0.17	19.72	19.44	94,291	30,113
Sep	18.95	-0.13	19.04	18.85	69,427	15,316
Oct	18.55	-0.12	18.70	18.55	34,748	5,296
Nov	18.41	-0.08	18.50	18.37	29,704	1,849
Dec	18.25	-0.12	18.35	18.24	33,792	3,912
Jan	18.15	-0.13	18.28	18.15	19,738	352
Total					410,821	62,865

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	17.24	-0.14	17.44	17.18	61,893	14,032
Sep	17.05	-0.13	17.24	17.00	41,114	9,382
Oct	16.95	-0.11	17.12	16.91	10,095	1,261
Nov	16.86	-0.11	17.05	16.85	6,686	1,143
Dec	16.95	+0.01	16.96	16.86	10,737	228
Jan	16.83	-0.06	16.83	16.83	3,546	50
Total					141,423	26,407

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	49.85	-0.47	50.30	49.75	37,549	9,119
Sep	50.45	-0.47	50.80	50.40	16,802	2,382
Oct	51.40	-0.42	51.80	51.35	12,250	869
Nov	52.50	-0.17	52.85	52.50	7,611	728
Dec	53.35	-0.17	53.45	53.20	16,864	964
Jan	53.80	-0.17	54.00	53.80	11,825	235
Total					123,674	14,329

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	150.00	-2.75	152.25	150.00	23,819	8,136
Aug	153.25	-2.75	155.50	153.25	23,061	7,863
Sep	156.00	-2.25	158.00	156.00	10,117	1,886
Oct	159.00	-2.00	161.00	159.00	8,365	868
Nov	161.25	-2.00	162.75	161.25	6,531	998
Dec	163.25	-1.75	164.50	163.00	14,151	1,086
Total					96,818	20,872

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	2.130	-0.001	2.135	2.115	20,206	10,474
Sep	2.147	-0.003	2.155	2.140	11,674	2,561
Oct	2.170	+0.005	2.170	2.155	10,708	987
Nov	2.244	+0.006	2.245	2.235	11,377	580
Dec	2.335	+0.009	2.335	2.330	14,694	771
Jan	2.335	+0.009	2.334	2.320	10,313	241
Total					114,105	16,580

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Aug	53.45	-0.40	53.90	53.45	48,804	11,013
Sep	53.55	-0.26	53.95	53.50	17,318	4,908
Oct	52.25	-0.21	52.50	52.25	5,025	359
Nov	51.10	-0.19	51.10	51.10	5,789	122
Dec	55.85	-0.44	55.90	55.80	3,283	230
Jan	55.40	-0.21	55.55	55.45	1,402	46
Total					83,688	16,789

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	103.30	+0.35	-	-	462	-
Nov	104.00	+0.30	104.10	103.50	2,358	163
Jan	106.00	+0.30	106.00	105.80	1,432	55
Mar	107.70	+0.40	107.70	107.10	496	25
May	109.00	+0.30	109.20	108.70	400	109
Total					5,193	362

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	305/2	-2/0	310/0	304/4	11,840	12,740
Sep	313/4	-2/2	318/4	313/0	96,680	49,240
Dec	326/6	-2/2	332/0	326/0	136,400	68,230
Mar	332/0	-1/6	336/4	331/4	27,900	7,745
May	328/0	+1/0	329/4	328/0	475	50
Jul	318/4	-3/0	325/0	318/4	2,455	1,110
Total					274,949	137,115

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	239/2	+1/2	241/0	237/6	60,435	34,105
Sep	230/2	0	233/2	229/6	278,375	86,430
Dec	229/6	+1/0	230/4	227/4	604,100	193,855
Mar	236/6	+0/6	238/4	236/0	84,025	11,460
May	242/4	+0/6	244/2	242/4	19,055	5,085
Jul	246/0	+1/4	247/4	245/4	25,260	7,665
Total					1,114,918	335,775

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	100.85	-	-	-	203	-
Nov	101.85	-0.35	102.00	101.80	387	13
Jan	102.50	-	-	-	28	-
Mar	104.00	-	-	-	38	-
May	105.75	-	-	-	1	-
Total					657	13

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	620/0	+4/4	624/4	619/2	48,735	33,890
Aug	614/4	+3/6	620/0	614/0	141,270	80,960
Sep	595/4	+3/6	602/0	595/4	83,510	13,840
Nov	581/0	+1/2	587/0	580/0	381,180	196,855
Jan	587/6	+2/2	593/4	587/4	39,540	10,220
Mar	595/0	+3/6	600/4	595/0	16,430	6,150
Total					719,095	336,899

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	24.25	-0.26	24.85	24.16	3,834	1,762
Aug	24.32	-0.35	24.90	24.18	19,513	7,815
Sep	24.27	-0.36	24.80	24.15	15,804	3,006
Oct	23.81	-0.62	24.45	23.70	9,739	2,303
Dec	23.56	-0.53	24.17	23.46	31,123	8,734
Jan	23.67	-0.46	24.20	23.55	2,955	595
Total					87,664	25,698

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	184.6	+2.7	185.5	183.2	7,225	3,574
Aug	184.6	+2.7	185.5	183.3	21,774	11,810
Sep	183.1	+2.3	184.5	182.3	15,908	4,024
Oct	180.3	+2.3	181.0	179.0	7,588	1,9009
Dec	179.6	+2.6	180.0	178.3	23,794	15,408
Jan	180.1	+2.6	180.5	179.5	1,734	401
Total					82,191	38,864

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	90.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	180.5	-	183.0	180.0	859	81
May	200.0	+19.5	-	-	-	-
Jun	107.5	-	-	-	-	-
Total					869	81

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1332	+13	1332	1315	731	70
Aug	1300	+6	1300	1299	534	102
Sep	1347	+12	1347	1338	-	44
Oct	1368	+15	1368	1365	461	42
Jan	1380	+2	-	-	235	-
Apr	1398	+7	-	-	109	-
Total					2,160	258

	Close	Prev
BFI	1355	1362

Cotton
Liverpool- Spot and shipment sales amounted to 216 tonnes for the week ended 1 July, against 50 tonnes in the previous week. Improved demand brought moderate purchases mainly in American descriptions. Support was forthcoming in certain specialist styles mainly in the CIS range.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	972	-6	991	970	2,119	198
Sep	989	-6	1013	981	17,436	4,632
Dec	998	-7	1015	988	27,077	3,411
Mar	1018	-6	1033	1009	30,493	1,086
May	1028	-7	1041	1021	10,957	1,129
Jul	1036	-6	1050	1036	3,466	21
Total					101,987	10,989

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1282	-12	1337	1282	257	4
Sep	1312	-8	1353	1304	34,549	3,745
Dec	1349	-15	1389	1344	12,894	1,013
Mar	1377	-17	1417	1375	7,367	277
May	1401	-17	-	-	3,119	-
Jul	1423	-17	-	-	2,330	-
Total					66,561	5,064

■ COCOA (ICCO) (SDR's/tonne)

Jul 5	Price	Prev. day
Daily	1003.15	1016.67
10 day average	N/A	N/A

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	3109	+62	3109	3055	1,726	188
Sep	3145	+71	3150	3035	21,034	2,786
Nov	3148	+57	3148	3070	8,322	551
Jan	3148	+63	3143	3055	8,158	528
Mar	3125	+62	3125	3065	3,477	120
May	3130	+75	3130	3075	379	10
Total					101,807	16,665

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	191.75	+7.05	194.00	184.60	318	147
Sep	194.60	+8.15	196.50	185.50	28,956	6,234
Dec	186.20	+8.00	186.20	186.20	11,681	205
Mar	186.10	+8.00	186.10	186.10	7,538	130
May	187.50	+8.00	-	-	1,108	67
Jul	187.00	+8.00	-	-	279	33
Total					49,698	6,836

■ COFFEE (ICO) (US cents/pound)

Jul 5	Price	Prev. day
Comp. daily	166.79	-
15 day average	140.49	-

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	12.00	+0.04	12.00	11.95	1,122	60
Jan	11.82	-	-	-	-	-
Mar	11.58	-0.01	-	-	60	-
Total					1,182	60

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	335.30	-2.50	339.50	335.20	10,292	2,993
Oct	316.30	-0.50	318.00	315.70	10,947	472
Dec	313.00	-0.30	313.00	313.00	926	9
Mar	309.80	+0.30	311.00	309.00	3,465	66
May	308.80	-	310.50	308.80	410	2
Aug	308.10	+0.10	310.00	308.10	342	3
Total					26,441	3,547

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	11.67	-	11.72	11.60	66,421	6,979
Mar	11.42	+0.02	11.46	11.38	28,932	2,271
May	11.34	-0.03	11.36	11.32	6,023	657
Jul	11.27	-0.03	11.30	11.27	2,253	276
Oct	11.24	-0.03	11.25	11.23	871	-
Mar	11.28	-0.03	11.36	11.30	91	-
Total					103,291	10,183

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	69.25	-0.05	70.20	68.00	444	121
Oct	70.20	+0.25	71.40	69.85	7,922	1,338
Dec	69.93	-0.82	70.86	69.55	29,573	9,098
Mar	71.15	-0.18	72.20	71.05	8,754	946
May	72.10	+0.09	72.70	71.10	4,274	665
Jul	72.88	-0.02	73.65	72.75	1,945	328
Total					51,709	12,852

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	83.00	-2.70	85.50	83.00	919	641
Sep	87.45	-2.55	89.70	88.75	14,432	815
Nov	90.25	-2.80	92.50	90.10	3,007	169
Jan	94.05	-2.35	96.00	94.00	3,756	153
Mar	97.75	-2.00	99.75	97.75	2,322	22
May	101.25	-1.25	-	-	179	44
Total					24,677	1,838

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jul 6	Jul 5	month ago	year ago
2068.8	2069.0	1979.8	1705.6

■ CRB Futures (Base: 4/9/56=100)

Jul 5	Jul 4	month ago	year ago
228.73	[illegible]	228.96	217.30

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Aug	63.375	-0.500	63.750	63.175	34,004	7,610
Oct	67.475	-0.575	67.900	67.300	18,762	2,402
Dec	68.275	-0.375	68.875	68.200	11,196	1,761
Feb	68.400	-0.275	68.800	68.350	8,682	996
Apr	70.200	+0.100	70.300	70.150	5,067	373
Jun	67.200	+0.200	67.500	67.000	820	5
Total					78,566	13,157

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	44.800	+0.175	45.150	44.700	2,526	2,877
Aug	42.875	+0.225	43.275	42.450	10,154	2,968
Oct	39.950	+0.200	40.250	39.600	5,816	2,061
Dec	40.200	+0.200	40.375	40.000	3,714	810
Feb	39.875	+0.125	40.200	39.750	928	212
Apr	39.275	-0.050	39.650	39.250	865	135
Total					24,039	4,153

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	34.025	-0.050	34.850	33.600	1,278	869
Aug	33.000	-0.600	34.300	32.750	4,721	2,452
Feb	41.150	-0.375	42.400	41.000	1,878	661
Mar	40.725	-0.325	41.600	40.625	74	25
May	42.000	-1.300	43.600	42.000	39	8
Jul	44.200	-2.000	44.200	44.200	30	11
Total					8,022	4,665

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
1500	57	92	57	73
1525	46	80	71	86
1550	37	69	86	99
■ COPPER (Grade A) LME	Oct	Dec	Oct	Dec
2300	192	192	22	61
2400	122	135	51	101
2500	70	90	98	155
■ COFFEE LCE	Sep	Nov	Sep	Nov
2500	756	826	113	180
2550	723	796	128	197
2600	686	764	143	216
■ COCOA LCE	Sep	Dec	Sep	Dec
975	55	93	41	70
1000	43	81	54	83
1050	26	62	87	114
■ BRENT CRUDE IPE	Aug	Sep	Aug	Sep
1650	76	-	2	33
1700	34	61	13	46
1750	8	-	39	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Oct)

		+or-
Dubai	$15.93-6.08q	-0.165
Brent Blend (dated)	$16.91-6.93	-0.280
Brent Blend (Aug)	$17.21-7.23	-0.280
W.T.I. (1pm est)	$19.31-9.33	-0.280

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$180-182	
Gas Oil	$151-152	-2
Heavy Fuel Oil	$90-93	+2.5
Naphtha	$162-164	
Jet fuel	$184-186	-1

Petroleum Argus Estimates

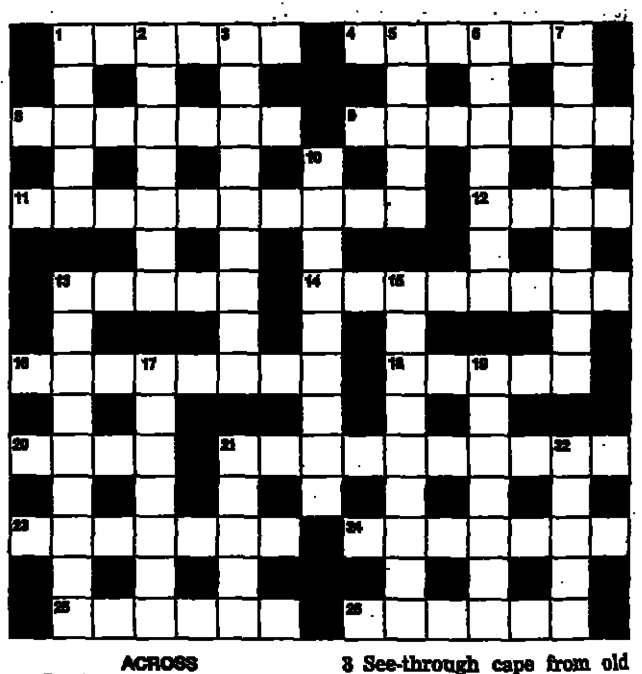
■ OTHER

Gold (per troy oz)♣	$384.80	-2.30
Silver (per troy oz)♣	529.50c	-10.00
Platinum (per troy oz.)	$407.35	-4.90
Palladium (per troy oz.)	$143.65	-0.10
Copper (US prod.)	116.0c	-1.0
Lead (US prod.)	35.75c	
Tin (Kuala Lumpur)	13.63m	+0.03
Tin (New York)	242.00c	-6.50
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	117.21p	-2.96*
Sheep (live weight)†◊	98.59p	+3.38*
Pigs (live weight)	75.90p	-1.62*
Lon. day sugar (raw)	$294.0	-4.5
Lon. day sugar (wte)	$340.5	-6.5
Tate & Lyle export	£302.0	-5.0
Barley (Eng. feed)	£100.5t	
Maize (US No3 Yellow)	£143.5	
Wheat (US Dark North)	£160.0	
Rubber (Jul)¥	82.00p	+0.25
Rubber (Aug)¥	81.75p	+0.25
Rubber (KL RSS No1 Jul)	304.0m	+1.5
Coconut Oil (Phil)§	$610.0z	+12.5
Palm Oil (Malay.)§	465.0q	-2.5
Copra (Phil)§	$397	
Soyabeans (US)	£170.0q	-10.0
Cotton Outlook 'A' index	81.25c	-0.50
Wooltops (64s Super)	426p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. t July/Aug. q Aug. z Jun/Jul. w July. ¥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ◊ Sheep (live weight prices). * Change on week, provisional prices.

CROSSWORD

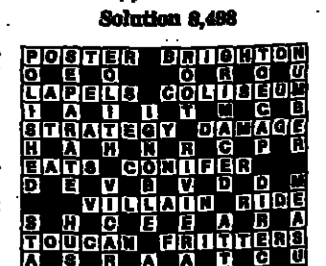
No.8,499 Set by HIGHLANDER



ACROSS
1 Careless engineers fail to notice (6)
4 Rise when taking first of catches on boundary (6)
8 Employed and committed to union (7)
9 American season starts bad decline (4,3)
11 University post and students with it (10)
12 Find fault with fish (4)
13 Pack animal – sounds like husky (5)
14 Insignificant people in Japan play with figures (8)
16 Moneylender accompanies missile for American government (5,8)
18 Set on fire just to protect the navy (5)
20 Wine, when it's turned over (4)
21 In France no dealing is involved that's not in an agreement with other countries (10)
23 It covers the pipes behind (7)
24 Melissa goes berserk with no objective (7)
25 Sterne characters given titular importance by Wilde (6)
26 Cleaner for example is about to put in a bill (6)

DOWN
1 Called on English to provide target practice area (5)
2 Wander starting with motorway east instead of west (7)
3 See-through cape from old dockyard in Kent (9)
5 For example, crawled quietly into waterlogged area (5)
6 Fabric (inside edge) is tangled up (7)
7 Erroneously freed people given time in adjournment (9)
10 Parliament rises, woodland plant climbs: both remarkable occurrences (9)
13 Passes over fish with gesture of agreement (9)
15 Sledge comes from Robert's place in Lancashire (9)
17 Telling stories with part of foot still in bed (5,2)
19 Soldier's uniform (7)
21 The figures to dress up to if ostentatious (5)
22 Make certain run out is to follow (5)

Solution 8,498



JOTTER PAD

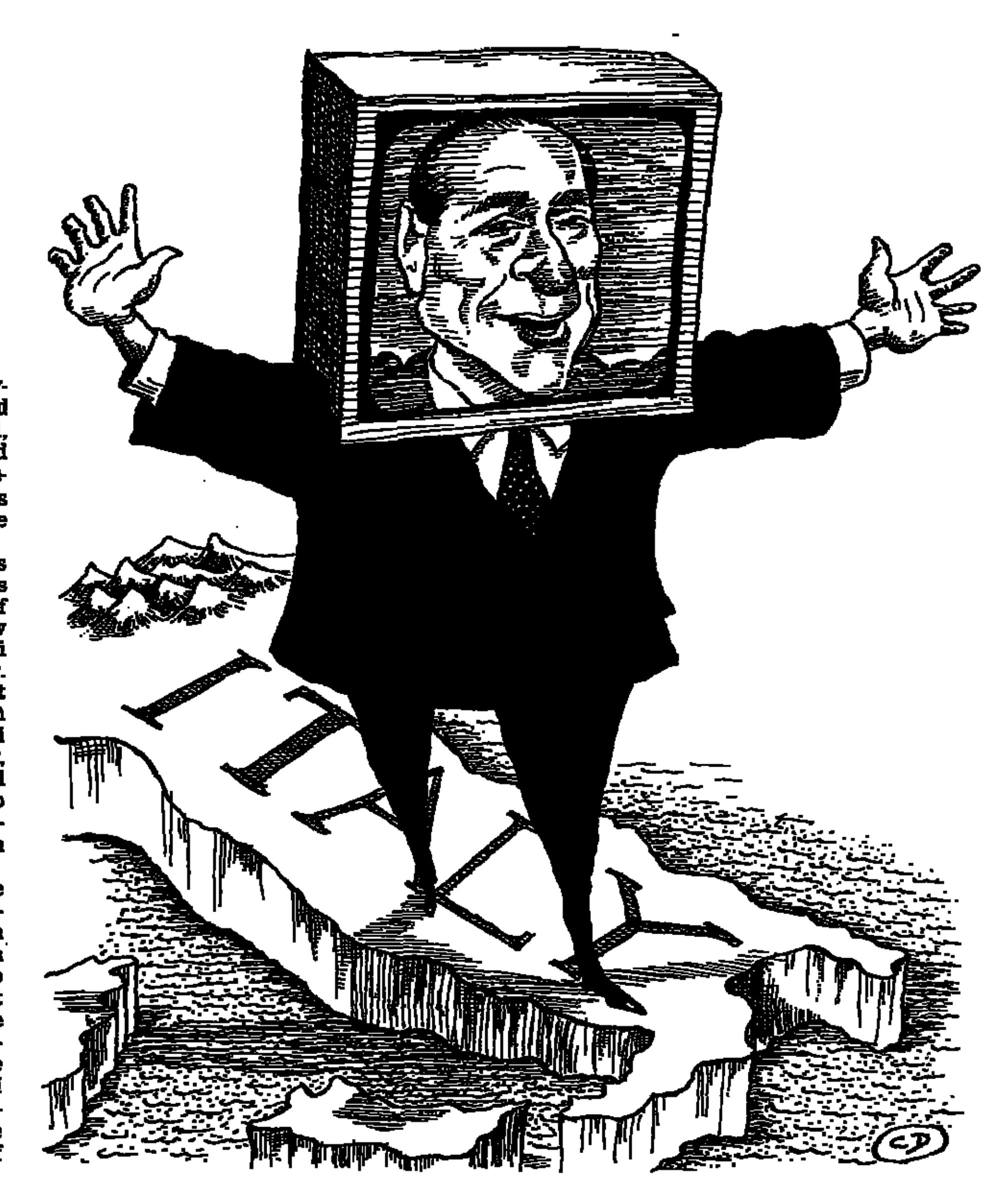
FINANCIAL TIMES SURVEY

ITALY

Thursday July 7 1994

In Naples tomorrow the Group of Seven summit will be hosted by a prime minister whose policy moves do not yet match his PR skills, writes **Robert Graham**

What Berlusconi needs to do now



Silvio Berlusconi, the media magnate turned politician, is patently full of good intentions.

He wants to reform Italy's cumbrous bureaucracy, place the state at the service of its citizens, and liberalise what is still one of Europe's most regulated economies.

He also wants to please. Among Italy's 53 postwar prime ministers, he is the first to use opinion polls systematically, and he takes great trouble to discover what concerns the public. His decision to approach politics as if it were a marketing exercise played a large part in his remarkable electoral performance. Entering the arena only this January, he became prime minister four months later at the head of his Forza Italia movement.

Yet two months after taking office with his right-wing coalition, Mr Berlusconi's performance has been slow, indecisive and disappointing. Faced with an opposition which is split between the left and centre and still coming to terms with the Berlusconi phenomenon, the prime minister has been weak on policy and strong on public relations. His popularity is uncontested, with approval ratings of more than 70 per cent, and he received another clear endorsement from the electorate in last month's elections for the European parliament.

People like his uncomplicated language, his engaging smile, his business success and the hint of showbiz in his style. The public at large seems to regard it as irrelevant that his brother Paolo has been arrested on corruption charges; that his Fininvest empire is being scrutinised by Milan magistrates; that Mr Berlusconi was a prime beneficiary of the much-discredited system of parties that his new government is seeking to bury.

Outside Italy, Mr Berlusconi has yet to dispel considerable reservations both about the conflict of interest with his Fininvest business empire and the nature of his government. No other European democracy has allowed a man who owned the second largest private business group with a virtual monopoly of commercial television to enter politics without *first* distancing himself from these business interests.

The provisions he has made in this respect are far from impartial. He still retains ownership of Fininvest and has merely appointed three lawyers, at least one of whom has previous links to Fininvest, to draw up proposals by September on how to avoid a conflict of interest. Such conflicts are bound to arise when he is obliged to deal with a range of issues from the introduction of pension funds to telecommunications privatisation and the reorganisation of broadcasting.

Mr Berlusconi also underestimated the negative impact of including in his government five ministers from the neo-fascist MSI/National Alliance. He did not want them as allies; but having failed to find supporters in the centre among the former Christian Democrats, Mr Berlusconi had to turn to the MSI, which is well-entrenched in the south.

The new premier genuinely believes that through its inclusion in government, the MSI will be sucked towards the mainstream of politics. Mr Umberto Bossi, leader of the populist Northern League and the other main partner in government, shares that view; and already Mr Gianfranco Fini, the MSI leader, has distanced himself from the more ugly elements in his party, which has changed its name to the National Alliance.

Nevertheless, Mr Fini has done the government a serious disservice through a series of public declarations that show his admiration for Mussolini and much of what he stood for. This runs counter to the spirit of the postwar republic, which has tried to bury the Mussolini experience. For the time being, the MSI in government will limit Mr Berlusconi's ability to expand the base of his parliamentary support to groups in the centre.

It is worth stressing that the government coalition is unusually heterogeneous. Forza Italia is still no more than a Berlusconi supporters' club run by former Fininvest employees claiming to be free marketeers; the League is federalist and rooted only in the industrialised north; the MSI calls itself "post-fascist", supporting a strong unitary state and continued state control of strategic economic activity.

In their different ways, each appeals to the large Italian middle class, which felt alienated from the discredited traditional parties and wanted a change. But there was no prior policy co-ordination between them. Indeed, Forza Italia, the League and the MSI never formed a proper electoral alliance. Mr Berlusconi made separate deals to support candidates with each of the two leaders.

Now that they have agreed to work together in government, both the League and the MSI risk losing their identities under the aura of Mr Berlusconi and the dominance of Forza Italia. Thus the League, in a vociferous manner, and the MSI more subtly, continually assert themselves, making the coalition inherently unstable.

Mr Bossi's party, which commands the largest number of deputies in the coalition, can play on the government's weakness in the senate where it lacks a clear majority. It would not be difficult to sabotage legislation there. Mr Berlusconi knows this and on several occasions has used the threat of fresh elections to keep the League in line. Mr Bossi will be loyal while he sees the government advancing down the road to federalism and so long as fresh elections appear against the League's best interests.

Sorting out a balance within the government and trying to establish new rules with an almost wholly new set of players has meant that the government has only just begun to function as a policy-making body. The slow start has been compounded by poor co-ordination among ministers and a general lack of experience. Of the 23 ministers, all but two are novices, many both to government and parliament.

Co-ordination will be vital if the government is to manage its ambitious agenda of modernising the state. Mr Berlusconi says he will embrace extensive privatisation, move towards a more federal structure of the state, reform the public administration, deregulate extensively, rework social benefits and overhaul the inefficient tax system.

So far, the most serious error has been the failure to communicate the right signals on economic policy to the financial markets. Mr Berlusconi has appeared over-anxious to ride on the benefits of having inherited an economy pulling out of recession and set to grow 1.5 per cent this year. His instincts have been to stimulate the recovery and make good his campaign promise of creating 1m jobs to reduce the 11.5 per cent jobless figure. The first measures have been in this direction – tax breaks on investment and new jobs, unfreezing public works contracts blocked by the corruption scandals, ending a temporary ban on local government recruitment.

Laudable in themselves, these measures have raised fears about inflation and deflected attention from the public accounts which were rightly top of the agenda of the previous Ciampi and Amato governments. With the public sector deficit at more than 10 per cent of GDP and the stock of debt now equivalent to a staggering 120 per cent of GDP, Italy is well out of line with the rest of Europe.

It was not surprising, therefore, that the post-electoral euphoria over a business-friendly government should be wiped from the Milan bourse and the lira weaken at the first sign of bad news. This was last month's constitutional court decision obliging the government to pay L32,000bn in pension arrears.

The need to find this money, though probably not until next year, was a brutal reminder of just how little room for manoeuvre any Italian government has while the budget deficit is so large and the mountain of debt keeps rising. It was all the more important for the new government to give the right signals since the 1994 budget deficit is likely to be closer to L160,000bn than the projected L144,000bn due to overruns on social security spending and lower tax receipts.

The government can recover the confidence of the markets – providing a convincing outline of the 1995 budget is produced quickly. But the 1995 budget plans, due out this month, will be the litmus test of Mr Berlusconi's credibility in more ways than one. The budget will demonstrate whether he is willing to act tough, cutting health and especially pension benefits.

His style has been to avoid confrontation, to seek to please. But if Mr Berlusconi wishes to reform Italy and usher in the Second Republic, it would be a pity if the opportunity is squandered in facile populism.

IN THIS SURVEY

Editorial production ......Gabriel Bowman
Illustration ......Chris Duggan

Andrew Hill looks at the politicians' promises

Focus is turned on smaller businesses

If Italy's myriad small and medium-sized enterprises (SMEs in the current Euro-jargon) had received L1,000 for every political promise or piece of praise received over the last six months, they would have amassed quite a tidy sum by now.

Candidates from right and left in Italy's March general election – many of whom were themselves small-scale entrepreneurs – held out promises of assistance to the SMEs and lauded smaller businesses as the backbone of the Italian economy.

Mr Silvio Berlusconi, now prime minister, and his supporters bandied around back-of-envelope figures suggesting that if one in four of Italy's small businesses were to employ just one extra person, his party's ambitious target of 1m new jobs could be met. Even President Bill Clinton, at the Detroit jobs summit this spring, alluded to the innovative drive of north Italian small business as an example for the world economy.

This emphasis on SMEs is nothing new. Indeed, Mr Berlusconi's focus on smaller businesses as a potential source of jobs echoes ideas already broached by Mr Jacques Delors, the European Commission president, in the white paper on growth, competitiveness and employment, launched last year.

But the theme has a particular relevance to Italy because of the importance of small businesses in the economy. Based on 1991 census figures, Confindustria – the Italian employers' federation – estimates that businesses with turnover of less than L10bn represent 86 per cent of all industrial companies in Italy, while those with sales of over L100bn account for less than 1 per cent. Some 39 per cent of Italian companies have fewer than 100 employees, compared with 24.9 per cent in France, or 21.1 per cent in the UK.

As Confindustria's research unit pointed out in a recent report on SMEs*, the development of Italy's smaller businesses would benefit the whole economy, because they are sources of innovation and generally employ younger workers than larger companies.

In the 1970s, Italy's small business sector grew far more quickly than larger enterprises: the number of companies employing between 10 and 19 people, for example, increased by more than 70 per cent between 1971 and 1981, as did the number of people employed by such companies. But in the 1980s, growth stagnated. The number of businesses employing between 10 and 50 people grew slightly, but employment in larger companies slipped below the 1971 level.

Small entrepreneurs lay much of the blame at the door of previous Italian governments, which paid lip service to the promotion of SMEs, while bowing to the demands of much larger companies (and, in some cases, gratefully accepting illicit party funding from the same enterprises). This was the period in which a vast bureaucracy was constructed, imposing a particular burden on smaller companies.

Entrepreneurs estimate that about 200 different taxes and charges have to be paid out by each individual business. The financial impact of this is bad enough, but the administrative burden is also hard to bear. For example, Mr Luigi Tessera Chiesa, managing director of Tepak, a small company making padded envelopes near Turin, reckons that of his 38 employees, two or three could switch to more productive work if they did not have to devote themselves to tackling red tape.

> Every business, it is estimated, must pay about 200 different taxes and charges

As chairman of the small business unit of the Turin employers' federation, he echoes the Confindustria call for less bureaucracy, fewer taxes and more tax breaks, plus incentives for training, research and innovation.

Mr Tessera Chiesa approves of one step that the government has already taken by cutting the taxation of reinvested profits for 1994 and 1995, a measure which he says will particularly benefit SMEs. "Large companies can't change their investment strategy to take advantage of this two-year window, but small and medium-sized companies can respond rapidly to the opportunities offered," he points out.

However, the bosses of SMEs are calling for further measures, in particular those aimed at encouraging alternative means of financing business growth.

At the moment, for example, small companies rely on bank financing. That means that at a certain point further expansion is hampered, because entrepreneurs do not want to add to debt already accumulated at higher than average rates. "Many companies refuse to invest because they are afraid that if they overinvest, the company will be put into the hands of the banks," says Mr Giuseppe De Carolis, head of corporate finance with Price Waterhouse in Italy.

"Credit institutions tend to overestimate the riskiness of granting credit to a small company," adds the Confindustria report. "In a number of cases, SMEs have financing costs which are too high relative to their credit risk, which indicates a failure of the market."

Small companies hope that continued reform of the banking system will help ease the situation. They are also backing the establishment of a second nationwide stock market which would allow smaller companies to finance themselves through equity issues, and stimulate the emergence of a new layer of Italian venture capitalists and small merchant banks prepared to back SMEs at realistic rates of interest. Competition from the stock market, entrepreneurs believe, would also put pressure on traditional banks to reduce their charges.

The snag may be persuading owners of family businesses to give up some of their hard-earned shares. Mr De Carolis believes it will require strong incentives to persuade small family companies to seek a stock market listing. The government, Confindustria, local chambers of commerce and the stock market authorities are all working on formal proposals which should be tabled in the next few months.

By then, it should be possible to assess whether the governing parties' campaign promises can and will be fulfilled. Meanwhile, Mr Tessera Chiesa and his counterparts around the country have a further simple request: "We're also hoping that the new government does another thing that few governments in the past have known how to do, and that is govern," he says.

* *Una politica per la piccola impresa (Previsioni dell'economia italiana, June 1994: L50,000, Confindustria Centro Studi).*

Robert Graham on a recovery still in its early stages

Deficit needs tackling

The Italian economy is in the early stages of an export-led recovery which is expected to gather momentum in the second half of the year.

But domestic demand remains weak and much here depends on the government's economic management. The new administration has begun by seeking to encourage investment with tax breaks and to kick-start activity by unfreezing a large stock of public works contracts put on hold as a result of the corruption scandals of the past two years.

In contrast, it has been much slower in formulating policies to tackle the budget deficit and the huge mountain of Italian debt, now equivalent to almost 120 per cent of GDP. However, the speed and success of the domestic recovery will be conditioned by the continuing need to hold down public spending and reduce the budget deficit, which is still over 10 per cent of GDP.

Also central to the management of the recovery will be tight control over inflation and a continuing wage constraint. Inflation is now below 4 per cent on an annualised basis but is still marginally above projected levels.

> Temporary lay-offs and early retirement conceal the extent of unemployment

All these factors will affect the market's confidence in policy and by the same token the level of interest rates. Italy's real interest rates remain high and Confindustria, the industrialists' confederation, insists there is scope for a further percentage point drop despite uncertainties in the international financial markets.

The economy began to pull out of the two-year-old recession in the final quarter of 1993. The growth trend, albeit modest, is now firmly established and should be around 1.5 per cent by the end of 1994 (against -0.7 per cent in 1993), rising to an annualised 2.5 per cent by 1995.

Domestic demand is projected to grow 0.3 per cent this year, rising to 1.5 per cent in 1995. However, the impact of external demand on the recovery should be more favourable than envisaged last autumn when the annual macroeconomic figures were prepared. World demand is expected to rise over 6 per cent, almost double the previous year.

Italy has been increasing its share of world trade since the 1992 lira devaluation and in 1993 exports grew a remarkable 8.5 per cent in volume terms. This performance was largely responsible for a dramatic improvement in the balance of payments. Last year the current account swung from a deficit of L34,200bn to a L17,900bn surplus – the best result since 1975.

The export drive continues, especially in emerging markets and the US. In the first quarter sales to Asia were up 53 per cent in value on the same period last year. Exports are due to increase 7 per cent in volume and 11 per cent in value this year.

The January-February trade balance of L3,300bn was double that in the same period of 1993; but the annual surplus may not remain so large. Imports are expected to increase towards the year-end as the recovery strengthens, up by 8 per cent in value terms during the year. The upwards trend in commodity prices (oil being especially important for energy-dependent Italy) could further raise the cost of imports.

Industry still has spare capacity to meet export orders and accommodate the gradual pick-up in domestic demand. Utilisation of industrial capacity is so far up one percentage point to 74 per cent this year with growing evidence of selective rebuilding of stocks. The latest business opinion surveys reflect a return of manufacturers' confidence, while Fiat, having sustained heavy losses in 1993, is beginning to see higher sales of cars and trucks.

But the overriding sentiment is caution after an abrupt 5 per cent fall in domestic demand last year. The construction business and heavy industry were especially hit, with the automotive sector making large-scale lay-offs. Investment in machine tools, machinery and transport equipment dropped over 15 per cent.

Despite the beginnings of a recovery, unemployment still continues to rise and is now over 11.3 per cent of the active population. Since 1991 1.2m jobs have been lost. The real figure is far higher because of the Italian practice of resorting to temporary lay-offs that can stretch over two years and more. Last year the number of hours covered by temporary lay-off payments increased 23 per cent.

Unemployment is also concealed by the use of early retirement, which is an extensive factor in the restructuring of the automotive industry, steel, defence industries, chemicals, shipbuilding and the railways. It is worth stressing the uneven geographical picture of unemployment. In the industrial north, unemployment is on average below 7 per cent while in the south, where the public sector economy is still in recession, the level is 20 per cent and more in some places.

The jobs crisis has forced the unions to place employment above wage demands. This, coupled with an increased productivity drive, has helped to hold down wages and production costs. Since 1992 wages in most sectors have fallen in real terms. Last year average wages increased 3.1 per cent, a good percentage point below inflation. Meanwhile, unit labour costs increased only 2.5 per cent. Wage restraint was particularly important among the 3.6m employees in the public sector and the resumption of talks with the government on pay increases in the autumn will be watched with great interest.

The government will try to hold down public sector wages as part of its efforts to control the public sector deficit. The deficit itself looks set to overshoot the 1994 budget projections of L144,000bn and reach L160,000bn, over 10 per cent of GDP. This is due to lower receipts as a result of the recession carried through from the previous year, plus the increased cost of social security benefits, particularly pensions. These developments will probably halve the projected size of the primary surplus (the balance of revenues and receipts less interest payments) to around L12,000bn.

But the public accounts have been further complicated by a June decision of the constitutional court, ordering the government to pay arrears on certain types of pensions dating back to 1983. The cost of the decision has been put at L32,000bn – the size of the spending cuts and extra revenue measures in the 1994 budget. Payment can only be delayed until 1995 and at present it looks as though the monies will have to be covered by a special tax.

As it is, the government will probably introduce a pre-summer mini-budget of L5,000bn to hold the deficit to below L160,000bn. At the same time, a further L35,000bn to L40,000bn will have to be found in 1995 just to keep the deficit at around 9.5 per cent of GDP, which is well above the EU average.

The government has little room for manoeuvre while the debt stock remains so high. Annual debt service is equivalent to the entire deficit; and every percentage point fluctuation in interest rates either adds or subtracts L15,000bn from the servicing bill. In the 12 months to March 1994, the debt stock increased 9 per cent. The total volume of debt is now expected to stabilise in 1995-96 at a maximum of 123-125 per cent of GDP.

Unless the new government takes decisive action to curb spending, little will be achieved. The prime target will be cuts in generous state pension benefits.

KEY FACTS

Area	301,000 sq km
Population	57 million
Prime minister	Silvio Berlusconi
Currency	Italian Lire
Average exchange rate	1992 $1 = L1,232
	1993 $1 = L1,574

ECONOMY	1992	1993
Total GDP (Lbn)	962,038	955,304
Real GDP growth (%)	0.9	-0.7
Components of GDP (%)		
Private consumption	63.1	62.4
Total investment	19.4	16.9
Government consumption	17.8	17.9
Exports	18.2	21.4
Imports	-18.5	-18.6
Annual average % growth in		
Consumer prices (%) [1]	5.3	4.2
Wholesale prices (%)	2.1	5.2
Hourly wage rates (%) [2]	5.4	3.5
Industrial production (%)	0.0	-2.2
Unemployment rate (%)	11.5	10.4
Discount rate (%) [3]	12.0	8.0
Total reserves minus gold ($bn)	27.6	27.5
Narrow money growth (M1) [4]	6.7	4.3
Money growth (M2) [4]	7.5	7.0
FT-A index (% change)	-12.1	38.8
PSBR (% of GDP)	11.1	10.2 [5]
Public sector debt (% of GDP)	111.0	114.0
Current account ($bn)	-25.4	10.6
Merchandise Exports ($bn)	178.1	167.9
Merchandise Imports ($bn)	-188.4	-147.2
Trade balance ($bn)	-10.3	20.7
Main trading partners (%) [6]	Exports	Imports
Germany	20.4	21.5
France	14.6	14.5
US	7.0	5.2
UK	6.6	5.7
Spain	5.2	3.4
EC	57.8	58.8

(1) For families of workers & office employees. (2) All industry manual workers. (3) End period. (4) Period average. (5) Estimate. (6) Share of world trade 1992

Sources: World Bank, EIU, Datastream.

THE STOCK MARKET

Equities for the family

Even before Mr Silvio Berlusconi's right-wing alliance won an overall majority in March, it was clear that equity investors had great expectations. A leaked exit poll on the second day of the two-day general election prompted a 4 per cent increase in Milan equities in a day.

The reaction was hardly surprising. In the short term, investors and prospective politicians alike had been expecting a prolonged period of haggling to form a coalition – a replay of old-style Italian politics. The prospect that a single grouping, with a free market manifesto and a pro-business attitude, could win a decisive victory was bound to charge up the markets.

In the weeks that followed, the equity market continued to feed off such optimism, in spite of the fact that Mr Berlusconi took his time to form his government. In the first three months of the year, the Comit index rose 3.6 per cent to 693.52, but by the beginning of May it had surged to more than 800.

More shares were traded in Milan on some days during that period than on Wall Street, and on one occasion the exchange was unable to open for business because of the sheer weight of small orders it was having to process. The scheduled changeover to full on-screen trading had to be postponed by a day.

The significance of this unprecedented activity was twofold. It showed that small investors were increasingly drawn to equities – a form of investment which has generally been spurned by Italian households in favour of government bonds – and it sent a strong signal to the new government that there would be trouble if expectations were not fulfilled.

> Small companies are to be given incentives to list their shares

In recent weeks, it has looked as though disillusionment is already creeping into the Italian equity markets. As this survey went to press, the government was wrestling with the consequences of a constitutional court ruling which could force payment of pensions arrears to the tune of more than L30,000bn. That has scared both equity and bond investors, and combined with a general slump on world markets to push the Comit index down to its pre-election level, although analysts still suggest that the long-term prospects for Italian shares are good.

But to be fair to the government, proposals have already been tabled which indicate the government's willingness to act on its campaign promises to bolster the stock market.

At the beginning of June, for example, the government agreed a decree which would harmonise withholding tax on shares at 12.5 per cent, the same level imposed on government bond interest payments. The effect was not so much to reduce the overall tax liability of owning shares, but to simplify the system.

At the same time, and more importantly, the government agreed a series of measures to encourage more small companies to list their shares on the stock market, and thus improve the liquidity of the Milan borsa. Among the incentives was a proposed three-year reduction in tax for smaller companies coming to the market before the end of 1996.

On a wider scale, the government has committed itself to continuing the privatisation programme first launched by the Amato government two years ago. The recent sale of Ina, the state-owned insurer, and the future privatisation of Stet, the telecommunications holding company, Enel, the electricity generator, and Eni, the energy and chemicals group, should attract more attention to the stock market and further improve liquidity.

As Mr Attilio Ventura, the chairman of the Milan stock exchange, put it in a recent speech: "In Italy, more than in other European countries, the success of the privatisation programme depends on the involvement of small savers, given the great weight of financial wealth held directly by households. Historically, most of the financial activity has been concentrated on bank deposits and government paper. Fewer than 10 per cent of Italian families hold shares – the lowest level among the industrialised countries."

But, as Mr Ventura's comments indicate, if demand for "state-owned equity" increases, it could be offset by a drop in demand for state debt. Treasury officials admit that it is a delicate balance. However, they point out that proceeds of privatisation issues are often used to cancel debt, so there is not necessarily a contradiction between the two aims.

In any case, reforms are also under way in the bond market. Foreign bondholders, for example, can now take advantage of a fast-track scheme for refunding withholding tax, which, under the cumbersome old system, could sometimes take up to 12 months to come through.

The Treasury is trying to restructure its own portfolio of debt, so that family shareholders are encouraged to take on longer-term debt, and the market for short-term debt instruments – such as the 3- to 12-month bonds (known as Bots) and floating notes – becomes more professional. It is estimated that some 90-95 per cent of Bots are held by private owners, whereas most of the three- to 30-year bonds are held by banks and foreign investors.

Central bank figures also illustrate that a reshuffling of household portfolios is almost inevitable as the stock market increases in prominence. In 1991, for example, only 4 per cent of household savings were held in shares, and 36 per cent in public debt.

"There has already been a shift from Bots towards other forms of investment and in a way we encourage this movement, because families have been a strong presence on our Bot market, which makes it very illiquid," says one treasury official.

This suggests a more sophisticated personal and professional investor is emerging in Italy, encouraged by reforms in the banking market. Banks have always been the main retail network for the purchase of government paper. They are now performing a role as outlets for privatisation issues, and for life insurance, personal pension and savings schemes. If that means that households move towards balanced portfolios of equities and bonds – either owned directly or through fund managers – then stock and bond markets could benefit equally.

Andrew Hill

Robert Graham examines a political transformation

Supporters' clubs score a victory

The idea of a successful political movement calling itself after a football slogan would have been laughed out of court a year ago. But today almost one in three voters are supporters of Forza Italia (Come On Italy!).

The movement was spawned in January by Mr Silvio Berlusconi as the vehicle for the media magnate's political ambitions; and this is essentially what it remains. Forza Italia has yet to define itself as anything other than a Berlusconi supporters' club run by former members of his Fininvest business empire.

Is Forza Italia then the harbinger of a new political phenomenon – a "light" party? Ideologically bland, it has moved where Mr Gianni Pilo, Mr Berlusconi's pollster, has identified the electoral preferences to be. The emphasis is shifting away from the interplay of parties to the satisfaction of voters' needs.

Forza Italia carries little baggage: its resources give it a lead over rivals

Compared to the traditional concept of Italian parties with their highly politicised and cumbersome party machines, Forza Italia carries little baggage. If the new premier sustains his popularity, Forza Italia could be the catalyst that welds together all the heterogenous forces in the centre and on the right. Its financial resources, backed by Mr Berlusconi's fortune, give Forza Italia a lead over all its rivals.

The Forza Italia coalition will be one of the two future blocs that many observers see as the inevitable consequence of Italy adopting a first-past-the-post voting system. The other bloc will be a broad left or centre-left alliance. The process began in the March 27-28 general elections which were essentially between the "Freedom Alliance" of Forza Italia, the populist Northern League and the neo-fascist MSI-National Alliance on the one hand and the six-party Progressive Alliance on the left. The centre parties were squeezed.

If Mr Berlusconi's bid for political power had failed, Forza Italia would have probably disappeared as quickly as it arose. But the party picked up over 20 per cent of the vote and increased this to 30 per cent in the June elections for the European parliament. The addition of some 10 percentage points of the vote in less than two months is the single largest swing in Italy's postwar history.

Until the March elections Italy was unique in western Europe for the near-absence of a floating vote and the electorate's loyalty to its chosen parties. For instance, the Christian Democrats and Italian Communist Party (PCI) consistently accounted for almost two-thirds of the vote until the 1987 general elections. The biggest swing experienced by the PCI was a 7 per cent increase in vote in 1976 (against 1972); while the most the Christian Democrat vote fell was 8 per cent in 1953 (against 1948).

Even today, on the left the old PCI vote has held steady in percentage terms at around 26 per cent. Three-quarters of the PCI vote has merely gone to its mainstream successor, the Party of the Democratic Left (PDS), and a quarter to the hardline Marxist rump, Reconstructed Communism.

The PDS has survived because the leadership realised the need after the collapse of the Berlin Wall to transform itself into a social democrat party. In contrast, the Christian Democrats and their allies in government were shattered by the impact of the corruption scandals that begun to be unearthed in 1992. Their *raison d'etre had* been to prevent the PCI coming to power and once this disappeared there was nothing to replace it.

The well-organised PDS was the first to understand that the new electoral system encouraged the formation of alliances. It formed a Progressive Alliance to fight two rounds of municipal elections in June and November last year and did spectacularly well. Save for the League stronghold of Milan, the Progressives made a clean sweep of the big cities. Before Mr Berlusconi entered politics in January, the PDS looked set to walk away with the March general elections.

Significantly, Mr Berlusconi moulded his campaign round the need to prevent the left coming to power. But his remarkably quick success was due to the way he both inherited and exploited the space formerly occupied by the conservative centre and the right.

A debt-burdened and demoralised Christian Democrat party dissolved in January. The bulk, representing the centre and left, formed the Popular Party (PPI), so resurrecting the name of the Christian Democrats' forebear in the 1920s. Their idea was to be a compact Catholic grouping, whose strength would be to act as coalition brokers between the left and the right. The remainder of the Christian Democrats decided to form a right-wing Catholic grouping, the Christian Democratic Centre.

A small slice of the old Christian Democrats had already jumped ship during 1993 to make common cause with Mr Mario Segni, the referendum leader who split from the party in March last year. Unlike the PPI, Mr Segni saw himself as the leader of a broad-based coalition drawn from both left and right.

However, his refusal to strike a deal with either the PDS or the Progressives ensured that he ended up without real allies. In turn, this opened the field to Mr Berlusconi himself.

Mr Berlusconi courted the PPI but was spurned. So he was forced to make common cause with odd bedfellows – the regionalist Northern League and the Mussolini-inspired MSI. Despite their differences, none had been part of the traditional power structure: all had escaped the stigma of corruption.

In contrast, the PPI and Mr Segni's Italian Pact in the centre suffered because they appeared ready to play old political games: wait for the election result and then act as brokers to form the next government. This miscalculation cost them dear and they must now decide whether to pursue a lonely vigil in the hope that the Berlusconi star will wane or become part of a broader alliance on the left or the right.

Their bargaining power would be greater in making a deal on the left. The PDS and its allies (Greens, Socialists, Democratic Alliance, The Network and Reconstructed Communism) appear to have a voter ceiling as long as they fail to broaden towards the centre. Mr Achille Occhetto, who resigned as PDS leader in the wake of the European elections, was not prepared to remove Reconstructed Communism from the Progressive Alliance, aware that they accounted for 7 per cent of the vote nationwide. But they are an electoral liability.

It is hard to see what most parties stand for in a post-ideological age

The nature of alliances will be the main political theme for the next year or so, and the subtext will be the identity of parties. Small parties such as the Republicans, Socialists, Social Democrats and Liberals have all but disappeared. They can obtain parliamentary representation only by forging local alliances and will no longer be able rely on proportional representation, which may be completely eliminated at the next election.

Practical differences on policies are disappearing and it is hard to see what most parties even pretend to stand for in this post-ideological age. Even the MSI on the right is being sucked towards the mainstream, burying its nationalist and corporatist sentiments.

This fast-changing picture imposes great responsibilities on the leadership of both the main groupings on the left and right, the PDS and Forza Italia. The PDS has the organisation but lacks the flair. Forza Italia has the flair but lacks the organisation.

Mr Berlusconi fostered the idea of supporters' clubs, which could be formed by almost any group that identified with him. Some 15,000 clubs now cover every part of Italy. Each tends to regard itself as autonomous. To achieve some coherence, a separate national organisation was set up, based in Rome. This controls the political activity of the party and its candidates, and leaves the clubs with social and support functions rather like a new string of rotary clubs. Indeed, many Forza Italia activists have sprung from such clubs.

A more formal party apparatus may be inevitable. Only this will enable Forza Italia to outlive Mr Berlusconi.

■ INSTITUTIONAL REFORM

Speroni seeks power for regions

Reform has been one of the most abused words in Italian politics. Much promised in every sphere of life, at best reforms have been timid and half completed. Usually, they have been still-born.

Yet Mr Silvio Berlusconi's government, more than any other postwar administration, has come to power with the promise of reform – from the tax system, pensions, health and the civil service to the very structure of the state.

There is little doubt about the new government's good intentions. The prime minister wants to make the state apparatus work better, be "citizen-friendly" and to reflect a more federal structure. His partners, the Northern League, have made "federalism" their battle cry, even if the concept remains ill-defined.

With an ample majority in the chamber of deputies, reform measures stand a good chance of passing through parliament without being emasculated. The main problem is establishing a set of priorities and co-ordinating policy within the government alliance.

Mr Berlusconi would like to proceed as rapidly as possible with a further overhaul of electoral reform. The changes introduced at the March elections showed that the August 1993 electoral reform measures were inadequate. They managed to combine both the best and worst of the old proportional representation laws and the first-past-the-post system.

In both houses 75 per cent of the seats were allocated under the first-past-the-post system. This was designed to encourage the formation of electoral alliances and promote a move towards a two-party or three-party system instead of the old 16-odd parties that made up the previous legislatures. In contrast, the retention of proportional representation, willed by the bulk of the old parties as an insurance policy for their survival, led to precisely the opposite tendency. It encouraged the permanence of small parties which retained at least a few seats.

At the same time, the voting age of the senate was left unchanged from the minimum 25 years, unlike the minimum 18 years for the chamber. Italy is the sole European country that now discriminates by age for representation to the upper house. The age difference produced a slightly different voter profile in March with maturer voters still favouring the centre. As a result, the Berlusconi alliance failed to obtain an outright majority in the senate.

An age change for the senate is an obvious move. But a more fundamental shift, to 100 per cent majority voting, is also required. This would either be with a single round of voting or a second round run-off, as in France. Only with such a system would the electorate clearly vote for a government and a programme. At present voters are still asked to endorse a particular party or candidate rather than a programme.

The most tangible evidence of electoral reform is in the hectic activity of Mr Francesco Speroni, the bicycle-riding League minister for institutional reform. In the formation of the government, the portfolio was hotly contested by the League who wanted this ministry, along with that of the interior, as a symbol of their commitment to federalism.

With elections for 15 of the 20 regional councils in Italy due next May, Mr Speroni has been drawing up proposals to harmonise the election rules for the regions with those already introduced for municipal councils. Since last year, the municipalities have seen their mayors directly elected on a voting system that also enables the winning party/alliance to enjoy a ruling majority.

This combination of directly elected mayors and special provisions enshrining the principle of ruling majorities has brought about a sea-change in local government. Mayors are no longer imposed by the parties after the elections but are "democratically elected" specifically for the task. Coalitions have been encouraged by a system of second round run-offs between the two top candidates. This has improved the municipal decision-making process considerably and ensured that local election results reflect local issues.

Greater devolution would permit greater autonomy in the "red belt"

The Speroni proposals would introduce majority voting, while allowing individual regions to opt for their own type of first-past-the-post system. But Mr Speroni's real aim is to make this the first step towards far greater devolution of power to the regions.

He would like to see a high degree of fiscal devolution to encourage better use of resources and more local initiative. Until now, local government has been funded by centralised hand-outs from Rome. These were poorly accounted for and permitted the local authorities to adopt a passive attitude to administration.

Mr Speroni insists greater fiscal devolution would not be at the expense of the principle of solidarity between regions. Richer regions would still be obliged to transfer part of their resources to the poorer ones. However, the latter would be placed under tight scrutiny as to how such monies are disbursed.

It remains to be seen how quickly Mr Berlusconi wishes to move down this path and where he will delineate the bounds of federalism. The neo-fascist MSI/National Alliance is uncomfortable about the League's federalist impulses and will endorse no measure that weakens the unitary state of Italy. The League itself has allies outside government, notably in the former communist Party of the Democratic Left (PDS), which favours greater devolution – not least because this would permit greater autonomy in the "red belt" of Emilia Romagna, Tuscany, Umbria, parts of Liguria and northern Lazio.

The government also has its eye on reforming the legislature. It is increasingly absurd to see the two houses duplicate their powers as well as their activities in debates and commissions. The attributes of the two houses need to be more complementary. Forza Italia's electoral programme proposed to transform the senate into more of a consultative and monitoring body, elected indirectly by regional councils, representatives of the provinces and municipalities. At the same time, the party pledged to increase the legislative authority of the lower house.

Another proposal oft repeated by Mr Berlusconi is to introduce a directly elected president and reduce his/her term from seven to five years. The president's limited powers would not be increased, rather he or she would have increased moral authority from a popular election. In contrast, Mr Berlusconi wants to increase the powers of the prime minister as the chief executive.

In all these various proposals, there is a clear move away from the former system that encouraged compromise and horse-trading to greater efficiency and transparency. But the inefficiencies of the old way of doing things were the result of a desire to provide checks and balances, and to avoid the concentration of too much power in one person's hands. There is now a danger of swinging the other way, with insufficient attention paid to providing checks and balances.

Robert Graham

Andrew Hill considers whether the country can pull its weight in the Community

This may be turning point on Europe

Mr Domenico Comino, Italy's new minister for Europe, is disarmingly frank about his country's image in the European Union: "Traditionally, we're considered the *truffatori* [fraudsters] of the Community," he says.

As self-criticism goes, that may be a little harsh, and Mr Comino himself, not surprisingly, hopes to disprove it. However, Italy's reputation in Brussels is certainly lower than might be expected for a country which signed the Treaty of Rome and has since toed an obsequiously pro-European line in its public policy statements.

Part of the problem has been the gap between theory and practice. As well as accusations of (mainly agricultural) fraud, Mr Comino identifies "a certain disengagement" on the part of previous ministers, and a perception that Italy signed up to laws without then enforcing them, as the main reasons for Italy's disproportionately weak political clout in the Union.

Whatever the reasons, while axes have proliferated between other member states, Italy has found itself all but frozen out by its biggest partners on important policy developments. In spite of being a neighbour of the former Yugoslavia, for example, Italy has taken a back seat in international diplomatic initiatives in the region, while its own proposals have mostly been politely ignored.

But paradoxically, the election of an Italian government more sceptical than any of its predecessors about the European ideal may mark a turning point in Italy's relationship with the EU.

The groundwork was laid by the preceding "technocratic" government, headed by Mr Giuliano Amato and then by Mr Carlo Azeglio Ciampi. They impressed Brussels with their manifest desire to clean up Italy's public finances and observe the economic criteria of the Maastricht treaty.

Being forced to withdraw from the European exchange rate mechanism in September 1992 was a blow, but three months later Mr Amato managed to persuade his EU partners to authorise an Ecu8bn balance of payments loan to Italy, partly to offset the loss of reserves used to support the lira during the exchange rate crisis. The conditions attached to this loan helped maintain the strong external discipline which Italy needs if it is to reduce its budget deficit and continue to follow the path laid out at Maastricht.

In this more positive climate, Mr Ciampi's government also managed to persuade the European Commission and EU industry ministers to approve a final package of subsidies for Ilva, the loss-making state-owned steelmaker, on condition that capacity was cut and factories privatised. For the first time for many years it seemed as though Brussels was actually taking Italian promises seriously.

In the early months of the Berlusconi government, ministers have been trying to talk the same language, although they accept that almost no amount of budget rigour will give Italy a chance of being in the first wave of countries moving towards European monetary union. "We're not even in the picture," admits Mr Giancarlo Pagliarini, the budget minister.

On moves towards European monetary union, Italy is not yet "even in the picture"

However, the goal of monetary union remains vital for the country, and the backbone of European legislation an important pillar of the reconstruction of Italy after years of disregarded laws framed by discredited lawmakers. "The political objective of Europe is fundamental for us," Mr Pagliarini adds. "If we look back, the best laws put in place in Italy are the laws based on EU legislation."

For federalist members of the new government, such as Mr Comino and Mr Pagliarini – both from the Northern League – fidelity to the European ideal also means giving more power to the regions.

But they will have to bear in mind, that overall policy is being laid out by more sceptical hands. At the helm of foreign policy is Mr Antonio Martino, son of Gaetano Martino, the Christian Democrat foreign minister who signed the articles of the Treaty of Rome. Martino *fils* is a member of the Bruges Group, inspired by Lady Thatcher's resistance to European integration, although he sees himself as a critic of previous Italian policy rather than an out-and-out opponent of Europe.

This sceptical line could well put Italy at one end of a European policy axis, with Britain at the other. Evidence from the recent summit of EU leaders in Corfu, however, suggests that this will take time to evolve. Mr Silvio Berlusconi flew out ready to press for postponement of a decision on the successor to Mr Jacques Delors as Commission president. He breakfasted with Mr John Major, the British prime minister, after which both men expressed their satisfaction at being on the same free market wavelength. But in the debate on the Delors succession, Mr Berlusconi switched to backing Mr Jean-Luc Dehaene, the Belgian prime minister and Britain's *bête noir* – helping to isolate the UK.

As an elected rather than a technocratic government, members of the Berlusconi team may find it slightly more difficult than their predecessors to take a strictly purist line on certain issues.

For example, there were fears ahead of the Corfu summit that the meeting might be disrupted by a row over the way Italy exceeds its EU milk production quota. In the event, the issue was overshadowed by the Delors succession, but Italy's insistence on a solution favourable to its farmers was reminiscent of the surprise decision by Mr Giulio Andreotti, then prime minister, to force milk quotas onto the agenda of the EU's 1992 Lisbon summit.

The new government might find its free market line similarly tested when it comes to lifting all quotas on imports from beyond the EU – particularly cars from Japan or leather goods from China. As Mr Berlusconi will be quick to find out, self-interest often rules at the Brussels negotiating table.

The most immediate challenge for the new government, however, is to combat the gut opposition of many of its European partners to the presence of the far right in the coalition. Mr Delors himself has already talked of the "extreme vigilance" needed when dealing with such a government, and certain EU ministers have publicly snubbed their "post-fascist" National Alliance counterparts at meetings.

One Italian minister points out: "You put the label on the bottle of wine when the wine-making is over, not when it's only just started." But it is already clear that Italy will only be able to pull its weight in European and international policy circles if it can dispel the residual fears of its partners quickly.

Recent and future privatisations

Company	% sold	Type of sale	Date	Amount raised	Industry
SIV	95	private	June 1993	L210bn	Glassmaking
Fin Italgel	62	private	July 1993	L437bn	Foods
Cirio Bertolli De Rica	62	private	Nov 1993	L311bn	Foods
Nuovo Pignone	69	private	Dec 1993	L700bn	Engineering
Credito Italiano	67	public offer	Dec 1993	L1,830bn	Banking
IMI	33	public offer	Jan 1994	L2,200bn	Banking
Esaote	100	private	Jan 1994	L60bn	Medical equipmt
Banca Commerciale Italiana	54	public offer	Mar 1994	L2,891bn	Banking
Ina	51	public offer	Jun 1994	c L5,000bn*	Insurance

Still to come: GS/Autogrill (supermarkets/catering); Stet (telecoms); Enel (electricity generation); Eni/Agip (oil and gas)
*Ina price not yet announced at time of going to print

Source: FT

Privatisation and the new government

Catalyst for change

In less than two years, privatisation, once anathema to Italian governments, has suddenly become a benchmark for judging Rome's commitment to modernising the Italian economy.

The three-year programme launched by the Amato government in July 1992 seemed to move slowly or not at all at the start. But when Efim, the now defunct state holding company, completed the sale of its glassmaking subsidiary SIV to the UK's Pilkington last June, it signalled an acceleration of the process.

Since then, there have been at least seven substantial sales, raising more than L13,000bn, not to mention a number of smaller flotations and private sales, for example by Eni, the state energy and chemicals group. Earlier this week, the Treasury was completing the largest privatisation yet – the sale of 51 per cent of Ina, the insurance company. In theory, the market will soon have to digest the even larger privatisations of Stet, the telecommunications holding company, Enel, the electricity generator, and all or part of Eni.

Everybody seems to agree that the process of Italian privatisation is now unstoppable. One of the first things Mr Silvio Berlusconi's new administration did in May, when confirmed in office, was to press ahead with the flotation timetable of Ina, as a signal of its willingness to carry out the programme outlined by Mr Giuliano Amato and pursued by his successor, Mr Carlo Azeglio Ciampi.

Mr Giancarlo Pagliarini, the new budget minister, said last month that the government's privatisation ambitions would extend to the contracting out of services. "For this government, privatisation doesn't only mean selling state enterprises," he told foreign journalists in Milan. "The sales are only a small part of the privatisation programme."

Most of the reasons why the state sell-off is important to the Berlusconi administration are fairly orthodox.

The proceeds of the sell-offs are channelled into reducing public indebtedness, helping to prevent a spiralling increase in the deficit and interest payments which could undermine all Mr Berlusconi's economic promises. Privatisation also helps public finances because it puts an end to most state subsidies. That, in turn, helps convince foreign governments and pan-European authorities that Italy is not going to slide back into its old trade-distorting habits.

For example, in the case of Ilva, the loss-making state steel producer, the fact that the Ciampi government's plans involved a commitment to the division and sale of its main operations helped to persuade the European Commission to approve a final package of subsidies for the company.

The final motive for continuing with privatisation is to encourage the Milan stock market. Apart from the interim Amato and Ciampi administrations, the Berlusconi government is the first in Italian post-war history that actively wants to stimulate the private sector through the stock market. Privatisation is one of the catalysts which the stock exchange and the government hope will encourage wider share ownership and the flotation of more private companies.

As Mr Pietro Armani, a former deputy chairman of Iri, the main state holding company, said at a recent conference on privatisation: "It is no longer possible today to think of a return to a mixed economy with direct state control of enterprises ... That's not only because of the strictures of the EU, but also because the state can perfectly well control the economy indirectly, through 'golden shares'."

However, in practice, some of the government's ambitions have been thwarted by circumstances. It is proving difficult to sell certain parts of the state sector – notably the flat steel division of Ilva, and the GS/Autogrill supermarket and catering companies. In addition, the previous administration's privatisation of two banks, Credito Italiano and Banca Commerciale Italiana, has sparked controversy about the control of such companies, casting a long shadow over future plans.

Mr Romano Prodi, then chairman of Iri, has led protests that powerful corporate and financial allies – backed by Mediobanca, the Milan merchant bank – gained control over the boards of the two banks after privatisation, by pooling their shares to nominate directors. According to Mr Prodi and his supporters, this circumvented rules limiting individual shareholders to a 3 per cent stake in the company, and thus thwarted Iri's attempts to encourage wider share ownership.

Neutral observers have pointed out that until Italy develops a pension fund and unit trust industry along Anglo-Saxon lines it will be difficult to guarantee small shareholders a voice in privatised boardrooms. In addition, Mr Prodi's opponents – such as Mr Paolo Savona, former industry minister – say the establishment of a *nocciolo duro* or hard core of shareholders helps privatised companies.

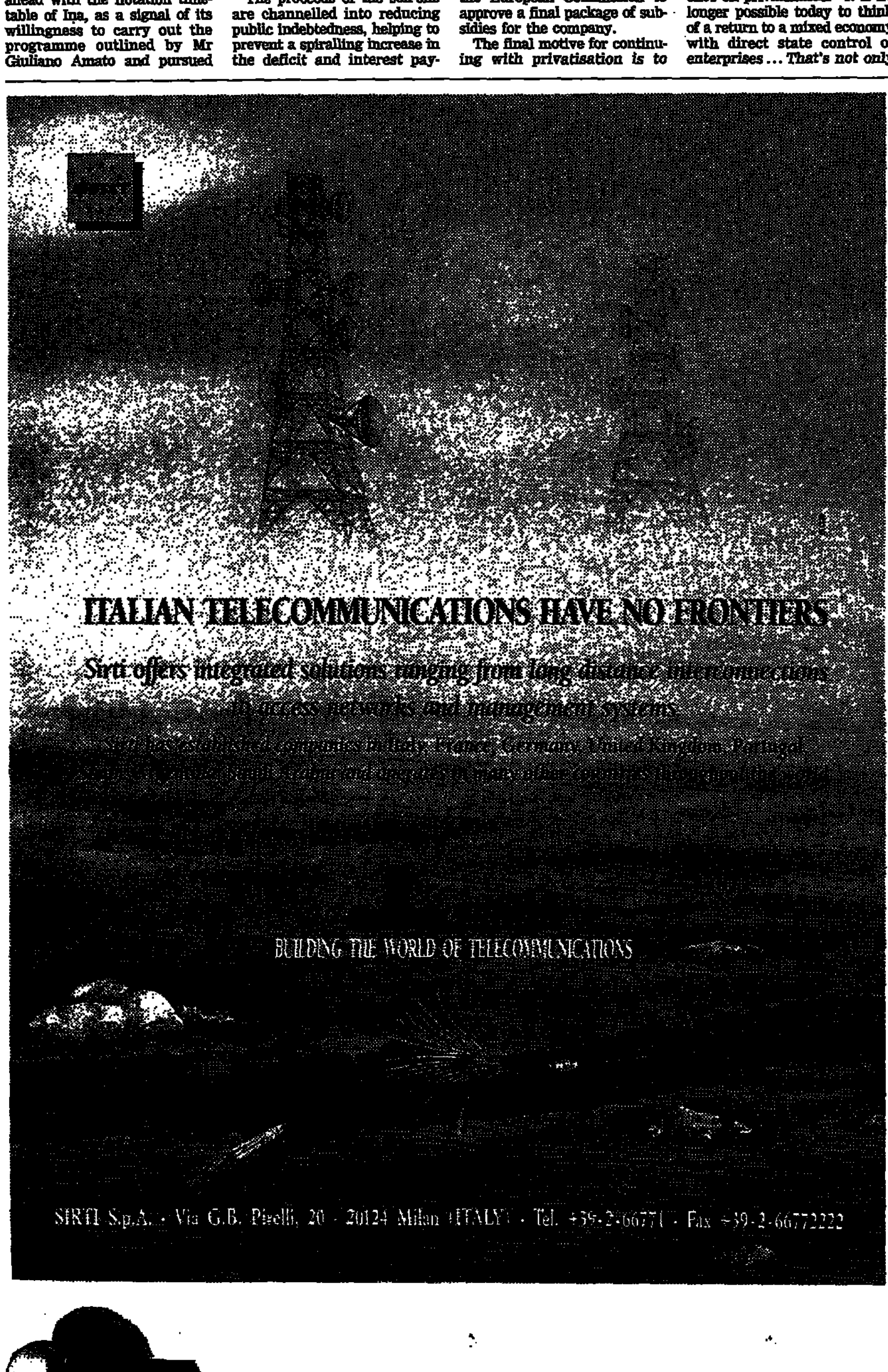
But the new government has still felt moved to dispel the small shareholders' fears. In the case of Ina, a 5 per cent limit has been imposed on shareholdings, but the stakes of allies – for example, investors who are members of the shareholder syndicate of third companies – will be counted as belonging to a single investor. At the same time, a certain number of seats on the board will be reserved for small shareholders' nominees. Although it remains to be seen how these rules will work in practice, the government has indicated that they will apply to the much more sensitive sell-offs of Enel and Stet.

These sales, and that of Eni, will be the real test for the new government's professed enthusiasm for privatisation, partly because they are larger than anything which has gone before. The Stet offer could set Mediobanca directly against supporters of wider share ownership, because the merchant bank wants to form a shareholder syndicate with Pirelli, the tyres and cables group, to take control of the telecoms company. Critics say links between Pirelli and one of its principal potential customers would hold back the development of Stet.

There is also a running debate about how and when to privatise Enel and the oil and gas interests of Eni. In theory, Stet should be sold before the end of this year, and Enel shortly afterwards. But Eni is pushing hard for the government to consider selling its Agip and Snam oil and gas subsidiaries before Enel comes to the market. "We've done everything to prepare for the government to take a final decision," says Mr Franco Bernabè, Eni's chief executive.

Critics of the government say it was not too difficult to take a quick decision about the sale of Ina, because it was uncontroversial and the ground had been well-prepared by treasury officials. It may prove more difficult to realise the high-sounding promises of Mr Berlusconi and his ministers to implement quickly the rest of the privatisation programme.

Andrew Hill



■ TRADE UNIONS

Conflict is giving way to conciliation

St Valentine's Day this year was the tenth anniversary of measures that reduced the monthly cost of living allowance by about L27,000. As well as hitting pay packets, the modification of the *scala mobile* (escalator) indexation mechanism in 1984 also fractured relations between Italy's three main trade unions: CGIL, CISL and UIL. It was the end of an era in which labour always seemed united, organised and ready for the frontline.

Flames of worker solidarity and trade union power now seem to flicker rather less brightly than in the 1960s and 1970s. Action is rarer, both in the workplace and on the streets. "Clashes at Fiat in the 1970s were the high point," says Mr Stefano Micossi, head of the research department at Confindustria, the industrialists' confederation. He notes, however, that difficulties in public sector labour relations peaked more recently, at the end of the 1980s.

As the present decade reaches its mid-point, there appears to be a different, easier climate.

"Attitudes at Confindustria have changed in several important respects. There has been a softening, and this has allowed us to discuss and do many things with the trade unions," claims Mr Micossi.

Mr Bruno Trentin, who has just retired as general secretary of the leftwing CGIL, notes that there is a desire to avoid conflict. But he seeks to deflect charges that his trade union has sold out. "There is confrontation, but it is well-behaved." And tensions still run high in some sectors. Mr Trentin reports difficulties in dealing with Confindustria's affiliated associations that represent small and medium-sized enterprises, Confapi, and construction companies, Ance, and also with the agricultural employers.

However, conflict has generally given way to conciliation. Mr Sergio D'Antoni, general secretary of the centre-right CISL trade union (linked to the former Christian Democrat party), talks about reaching understandings with employers' organisations. "It is the best way of safeguarding workers' interests," he affirms.

Last July's labour agreement, reached under the Ciampi government, illustrates what the dialogue during the early 1990s has achieved.

First, the agreement contains a framework for incomes policy. Formal consultations between government, labour and employers are to be held twice a year, before economic policy measures are decided. Trade unions and employers have undertaken to act consistently with the objectives set as a result of the consultations.

Second, it lays down a new structure for collective bargaining, industry-wide contracts at national level and local negotiations having different timings, procedures and bargaining items. Trade union representation at company level has been redesigned and mechanisms introduced for cooling off disputes.

"This new system of industrial relations is very important," says Mr Micossi, who considers that labour's agreement is evidence of realism. "Wage bargaining is much simplified, with only two negotiating levels and a four-year contract period. National contracts are under negotiation this year and next, and local contracts will follow in 1996 and 1997," he explains.

Enthusiasm for last year's agreement is not one-sided. "It was a great step forward, establishing a single system across the board, including the public sector, and creating a new approach to trade union representation at plant level," says CGIL's Mr Trentin.

Are there dangers that the new bargaining structure and the economic upturn now under way will cause inflationary wage settlements? With the complete abolition of the *scala mobile* mechanism in July 1992, wage indexation is no longer the inflationary element that caused damage in the past. Wage inflation, if it occurs, will arise from agreements at national and local levels.

Confindustria's Mr Micossi is optimistic. "Industrial relations are good and the trade unions are reasonable. We do not foresee an imminent return of wage inflation. There is no possibility of real wage increases before 1996." The industrialists' confederation is concerned, however, about wage drift in the public sector.

The CGIL also considers that risks of wage inflation are low, though inflationary seeds may be taking root. Mr Trentin notes that the purchasing power of workers' pay packets has declined over the past two years. "The problem lies in the retail sector. Even with falling factory gate prices, shop prices increased."

However, the latest statistics show that inflation is at its lowest in 25 years. Trade union attention is focused most on unemployment, and there is awareness that moderation on wage claims can help job creation.

Moderation is one of several new words that have broadened the vocabulary of Italian labour relations over recent years. Flexibility is another.

"Modern trade unions must be open and flexible," says CISL's Mr D'Antoni. He believes that flexibility on working hours should be used more widely as a means of creating employment. "Employers have dragged their feet on this," he alleges.

Mr D'Antoni warns that employees' rights must be protected. And he says that increased flexibility of existing workforces must not lead to fewer or temporary jobs, but to stable new employment.

"We do not make a demon of flexibility. But it needs to be managed carefully. Old certainties must be replaced by new certainties, not by uncertainty. A fundamental principle, won after a long fight, is that equal work should be rewarded by equal pay," says Mr Trentin at CGIL.

With youth unemployment a serious problem, one of the issues under discussion is starting wages. Mr Trentin says that the CGIL does not oppose differentials for young people, provided that their pay packets are adjusted when their skill levels and productivity reach those of older workers.

Another issue is the south, where unemployment is twice the national rate. One proposal to deal with this problem is a north-south differential (*gabbie salariali* – wage cages), with lower southern pay packets to encourage the creation of jobs. "It was tried before, and does not work," says Mr Trentin, who adds that differentials exist in practice as many employers in the south disregard national wage agreements.

Italy's high jobless figure has had an impact on trade union membership. The CGIL's working membership has fallen significantly: last year it was 2.5m against 3.6m in 1977 and 3.1m in 1983. Indeed, the number of pensioner CGIL members last year (2.7m) exceeded those in employment.

Union membership (in millions)*

Union	WORKING 1983	WORKING 1993	PENSIONERS 1983	PENSIONERS 1993	TOTAL 1983	TOTAL 1993
CGIL	3.1	2.5	1.4	2.7	4.5	5.2
CISL	2.4	2.2	0.6	1.5	3.0	3.7
UIL	1.2	1.2	0.1	0.5	1.3	1.7

*Membership of confederate trade unions

Source: CISL

The other two confederate trade unions (CISL and the centre-left UIL) have also experienced ageing in their ranks, though not as marked as the CGIL. This partly reflects corporatist consensus-seeking that is strong in the conservative and Catholic parts of Italy's trade union movement. "We must be involved in policy choices. This important role for trade unions is in the interests of those in work," says Mr D'Antoni.

Have Italy's trade unions lost their way or the will to fight that they showed in the 1960s and 1970s? Certainly the situation is different from the time when Luciano Lama headed the CGIL and Mr Trentin led the heavy brigade of its engineering section, the *metalmeccanici*, with fraternal backing from CISL's and UIL's engineers. However, Mr D'Antoni believes the need for trade unionism and support for it from workers remain intact.

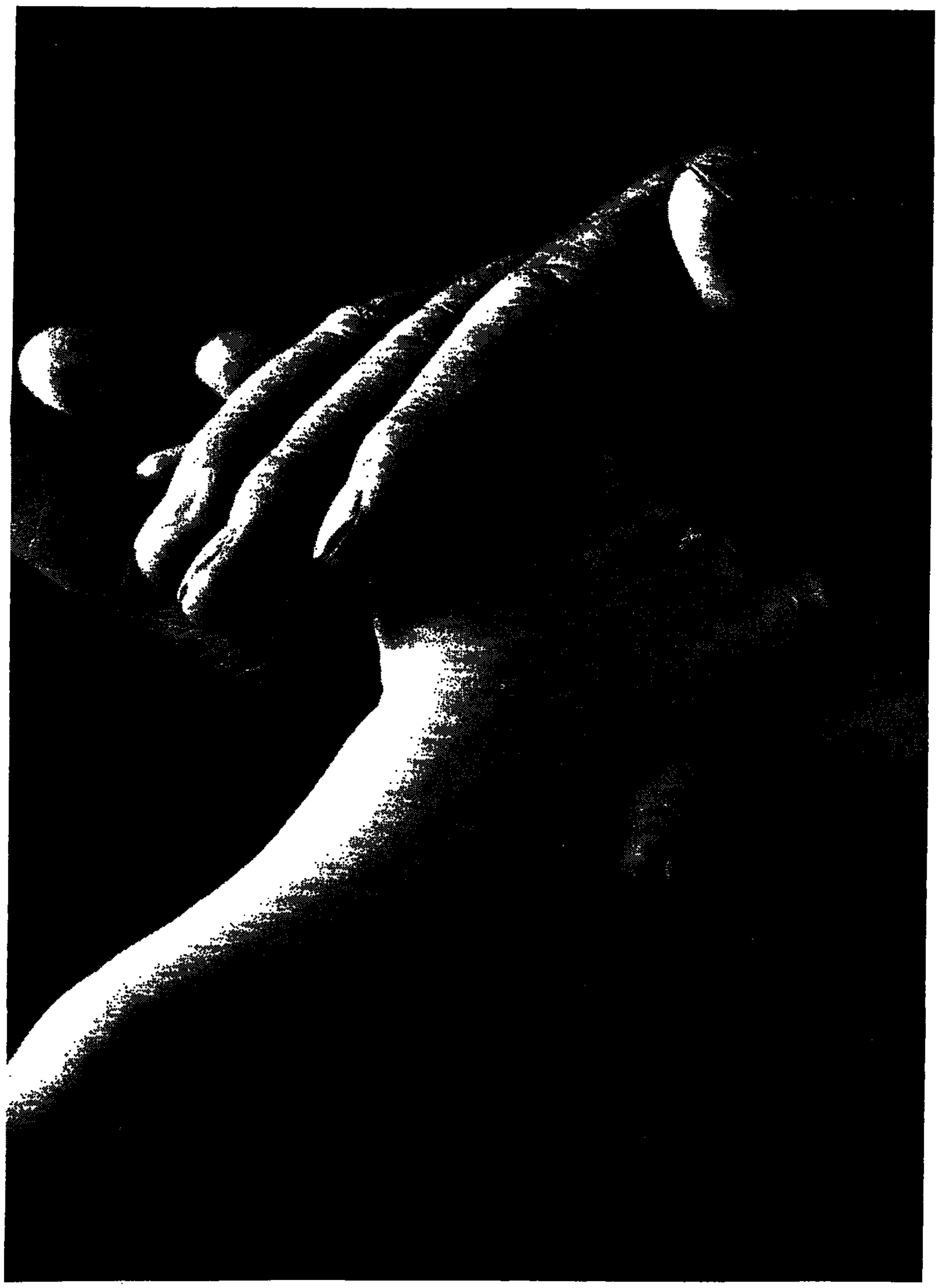
As the trade unions come to terms with a rapidly evolving economy and the radical changes in Italian politics, a major development is in sight for them. Ten years after the split on the *scala mobile*, the prospects of unification seem bright.

"CISL's doubts and reservations have lessened considerably," says Mr D'Antoni. And CGIL wants to accelerate the unification process. "There has been great progress in relations, and there will be a joint congress of the three confederate trade unions at the end of this year. Next year offers prospects of unification," says Mr Trentin.

David Lane

In every country, some companies, more than others, express that country's culture. It's what makes them unique. In Italy, it is names like Cirio and Polenghi. Think about it. Could these companies have been born in any other place? Or from different people? The answer is no, and it's easy to see why. In 1860, Francesco Cirio had the idea to protect tomatoes in a safe and practical tin – he used the typical Italian creativity and flair appreciated all over the world. Likewise, in 1870, Mr. Polenghi knew that a food as important and delicate as milk needed more selection at source and better protection during distribution. He applied that Italian courage and sharpness of mind admired and envied by the rest of the world. For over 130 years, these companies have never compromised their ideals about preserved food or given up their love for the land and its produce. They have enjoyed a privileged relationship with agriculture since the very beginning.

Ritratto Italiano.



Today a great project has been realised – the gathering together of all the companies and brands such as Ala, Berna, Cirio, De Rica, Matese, Optimus, Polenghi, Solac, Stella and Torre in Pietra into one Group. Today, in 1994, the "Cirio" Group is born. A Group that brings together the experience and resources, the traditions and innovative strengths, that are so intrinsically Italian. A Group that shares a common industrial and production philosophy. The "Cirio" Group benefits from a wealth of technology and employees with their sights set on the future. But at the heart of the "Cirio" Group is a heritage tinted with those three important colours – the green of the fields, the white of the milk and the red of tomatoes.

CIRIO

BIANCO, ROSSO E FUTURO.

The Cirio Group brands are: Ala, Berna, Cirio, De Rica, Matese, Optimus, Polenghi, Solac, Stella, Torre in Pietra.

SANNA&BIASI

David Lane on the prospects for further pension reforms

A jungle that must be cleared

Pensions are a fighting issue for Mr Sergio D'Antoni, general secretary of Italy's CISL trade union. He says, *uncompromisingly, that the new regulations governing the country's state pension system that came into effect at the beginning of last year have put an end to the debate on pension reform.* "More changes would be wholly unacceptable."

Yet, as the dire state of public finances makes news and attention focuses on the yawning hole in the accounts of the INPS (Istituto Nazionale della Previdenza Sociale) national pension fund, reform is being mentioned by many. The recent court decision that awarded increases in second pensions, to lift them to minimum *levels, spotlighted the awesome cost of* pension provision and the awful condition of INPS' accounts. The cost of the court *decision, which includes payment arrears* from 1983, has been estimated at L32,500bn.

The changes introduced by the Amato government, after decades of procrastination, now seem too little and too late. Until 1992 no government had been willing to tackle the spiny pension issue and risk disfavour with the electorate. Whether or not Mr D'Antoni wants the debate reopened, this has happened, and proposals for further changes are being discussed.

Gradualness is a feature of the Amato reform, which tried to ease the pain of extending retirement age by introducing the change over 10 years. The age for old age pensions was raised from 55 to 60 for women, and from 60 to 65 for men, in yearly steps every two years. The measure will thus only become fully effective at the beginning of 2002. Similarly, a gradual process lifts the number of years of pension fund contributions necessary to qualify for an old age pension from 15 to 20 years.

Sergio D'Antoni: "generational solidarity"

The reform failed to address two matters that many consider critical. One is public sector pensions which, although not handled by INPS, are nevertheless a burden on public finances. Civil servants and local government officials can enjoy the pleasures of retirement after less than 30 years of employment. "It is a jungle," says Mr Bruno Trentin, the recently retired general secretary of the leftwing CGIL trade union. He considers that reform should first tackle public sector pensions.

The other is the seniority pension *(pensione di anzianita)* which allows employees to retire on pension after 35 years of contributions to INPS. Clearly, any man or woman who started work at the age of 20 and has paid contributions continuously since then may retire at 55.

"Italy must eliminate the seniority pension," says Mr Giovanni Palladino, head of the financial analysis division at Confindustria, the industrialists' confederation. He suggests raising the 35-year requirement to at least 42 years immediately, and believes that this will be done when the Amato government's pension reform is modified. "There will be a tremendous uproar from the trade unions. But they should understand that the system must be changed for it to become viable and not be destroyed," says Mr Palladino.

Demographic factors are contributing to the erosion of INPS' viability. People retire earlier and are living longer. Figures from *INPS show that the employees' fund has* about 11.7m working contributors, while there are about 5.1m pensioners plus a further 2.7m dependents of deceased pensioners. In addition, there are 2.2m invalids drawing pensions from the employees' fund.

INPS is a pay-as-you-go scheme, with contributions from active workers being used to pay current pensions. Every worker is therefore funding one pension being paid. Mr D'Antoni at CISL describes this as "generational solidarity".

The call of solidarity is rather less among Italian shopkeepers, of whom 1.7m are presently paying contributions. They *support 0.4m pensioners, 0.2m dependents* of deceased pensioners and 0.2m invalids. However, the situation is very different for Italy's 0.9m active agricultural workers. They and other INPS contributors support 0.7m pensioners, 0.4m dependents of pensioners and 0.9m invalids.

Generational solidarity is one feature of Italy's state pension scheme. Another is sectoral solidarity. INPS points out that funds generated by employees' contributions created substantial reserves in the 1960s. These were diverted to pay pensions to the self-employed – shopkeepers, tradesmen and agricultural smallholders – and to win their votes. These categories have contributed little but received a lot.

INPS has also been called to pay for social policy measures decided by government. Instead of operating solely as the *pension fund for which it was established,* successive governments, with the consent of the trade unions which ran INPS until last year, used it as a social shock absorber. Since the economic crises of the 1970s, it has paid for early retirement programmes and unemployment pay, and has subsidised reduced contributions to encourage employment in depressed areas.

INPS says that it disbursed L70,500bn last year in social assistance. Of this L25,000bn was paid to bring small pensions up to the minimum, L13,000bn to cover the deficit on agricultural workers' pensions, L9,000bn for subsidised reduced contributions, L8,000bn for reduced contributions for domestic workers, apprentices *and trainees, L5,000bn for unemployment* benefits, L5,000bn for benefits to the elderly without pensions, L3,500bn for early retirements and *L2,000bn for other* pensions.

Bruno Trentin: "the system may collapse"

Required to range way beyond simply managing the funds of active workers to pay pensions to those who have been contributors, according to what they have paid in, INPS has serious problems in balancing its books. This year it expects to disburse L250,973bn, while receiving L178,823bn. The cash shortfall of L72,150bn *(equal to about one half of the PSBR), will* be covered by transfers from the treasury.

With such figures making headlines in Italian newspapers, it is not surprising that the crash or collapse of INPS is being predicted and that there are calls for tough measures to correct the situation.

In addition to making immediate changes to qualifying ages for old age and seniority pensions, another modification under consideration concerns the yield for calculating pension amounts. At present, this is 2 per cent of average annual wage in the final five years of employment, per year of contribution, giving 70 per cent for those with 35 years of contributions.

Though the Amato reform has introduced changes to the number of years taken into account for the calculations, it has not touched the yield, which is generally thought to be generous. Confindustria's Mr Palladino considers that this should be cut to 1.5 per cent. Mr D'Antoni says that such a move would be devastating.

Generational solidarity is being stretched as many middle-age employees wonder how much of the 27 per cent of their annual remuneration, paid to INPS as pension contributions, they will eventually enjoy.

Yet if the government wants to show that it is serious about putting public sector accounts in order, it is difficult for it to avoid tackling this tough problem. Another round of pension reform will not be a vote winner at home, but it would win respect in international markets.

Some trade unionists are not blind to the need for action. "The system is unsustainable. *Unless something is done, it will* collapse by the year 2000," predicts CGIL's Mr Trentin.

Christopher Matthews assesses signs of a change in government attitudes

Fears grow of softer line on Mafia

The Mafia's language is traditionally allusive. No self-respecting Mafioso will directly threaten you with death. *Instead,* he will graciously inquire after your health.

This makes Mafia watching rather like *old-style Kremlin watching – a question* of interpreting subtle signs and signals. Similarly, any government's pronouncements or decisions on matters pertaining to the Mafia are immediately scrutinised and interpreted to gauge the current level of determination to fight organised crime.

Clearly, Mafiology is no more an exact science than was Kremlinology. All the same, fears among Mafia watchers that the Berlusconi government is about to throw the two-year-old successful offensive into reverse gear could be justified. Some damage has already been done.

If most of the top bosses of the Mafia, the Neapolitan Camorra and the Calabrian *'ndrangheta* are today behind bars, and if *police were last year able to sequester* a record L1.5 trillion worth of Mafia property, that is largely due to the fact that, since 1992, more than 700 Mafiosi have been induced to come forward as government witnesses.

This, in turn, is largely the consequence of legislation passed following the Palermo assassinations of Judges Giovanni Falcone and Paolo Borsellino, which gave *the mobsters a number of incentives to* collaborate with justice.

Yet a revision of that law was one of the first reforms suggested by Mr Alfredo Biondi, the new justice minister. Getting Mafiosi to step forward and grass on former associates was not enough, he argued. There should be built-in safeguards to ensure that they were telling the truth.

Just what the minister had in mind was *not* spelt out in detail, though the idea seemed to be that new collaborators should be obliged to state from the outset *exactly what information they had to* "sell" to avoid subsequent corrections or "instalment plan" revelations. Another suggestion *Mr Biondi* made was that Mafia witnesses should be placed under the protection of a specialist agency to be created on the lines of the US marshals' service.

Although Mr Biondi has since made clear that no new legislation is in the offing, the impression left is that:

a) Mafia justice collaborators are to be considered a suspect category.

b) Magistrates, who at present enjoy complete autonomy in "controlling" Mafia informers, risk seeing their role restricted.

According to Mr Pino Arlacchi, professor of sociology at Florence University and a leading expert on the Mafia: "The debate on whether collaborators can be trusted or not is useless and counter-productive. Magistrates should be capable of telling the difference between lies and the *truth without being told how to.*"

Whether or not they are, it is clear that breaking down the wall of *omerta*, the code of silence that for long kept the Mafia one of the world's most successful secret societies, depends largely on the personal alchemy that develops between individual magistrates and Mafiosi. It hinges, too, on whether the latter are satisfied that they and their families can be *effectively protected.*

Mr Tommaso Buscetta, the first Mafia boss to turn informer, kept his mouth shut until he met Giovanni Falcone, though Brazilian police had torn out his toenails and threatened to throw him from a helicopter in which he was travelling.

Prof Arlacchi, himself under sentence of death from the Mafia, says that the debate on the handling of informers represents a serious setback in the war on the mobsters. Many informers, he notes, have already begun to dry up.

Equally damaging, he says, is the current controversy regarding the conditions under which Mafiosi are being detained. *These have been dubbed* "inhumane" *by* the president of the Chamber of Deputies' permanent committee on justice.

Until two years ago, many Mafia bosses served their jail terms in extremely permissive conditions. They had access to cellular telephones, with which they *could impart orders to* their henchmen outside the prison walls, virtually limitless visits, and deferential treatment from prison guards *and authorities. Many, on* the strength of medical certificates, enjoyed the comfort of private clinics.

All that changed after the judges were assassinated. Tough regulations were introduced. The Mafiosi were all despatched to the island prisons of Pianosa and l'Asinara, to be cut off from the outside world.

"This proved a serious blow," says Prof Arlacchi. "The Mafia bosses saw their prestige crumble. The myth of their impunity was shattered. But now I see a serious threat to the very edifice that we've *constructed against* the Mafia over the last few years."

Investigators have repeatedly warned that the Mafia would try to find ways of discrediting their former colleagues-turned-informers, while Mr Toto Riina, the supreme Mafia boss, has spoken out against the jail conditions which he and his associates have endured. In other words, a hypothetical Mafia lobby might justifiably view today's controversies as a considerable success.

Why is the debate about informers taking place at all? According to Prof Arlacchi, it is being orchestrated by corrupt politicians and members of the judiciary who have the most to fear from the informers' revelations.

A somewhat different view comes from Mr Paolo Cabras, a former senator and member of the parliamentary Anti-Mafia Commission. He *says* the Berlusconi government is seeking to redress the internal balance of power, which swung heavily in favour of the judiciary with the Tangentopoli investigation and the subsequent collapse of the traditional political parties.

Moreover, he notes, several top ministers and aides are all former lawyers – such as Mr Biondi and Mr Cesare Previti, the defence minister. They are not necessarily well-disposed towards magistrates.

At this point, it can only be a matter of conjecture whether or not Italy's new government is "soft" on the Mafia. We will *have to see what the cabinet does,* as opposed to the often contradictory things it says. But the signs are not encouraging.

LONDON STOCK EXCHANGE

MARKET REPORT

Shares give ground again on currency worries

By Terry Byland, UK Stock Market Editor

Nervousness regarding progress at the US Federal Open Market Committee meeting increased yesterday and UK shares turned down smartly in mid-afternoon. Trading volume remained light, however, and equities closed above the day's lows.

The second half of the session was dominated by the dollar and the US Federal bond markets, both of which turned lower as New York absorbed strongly worded comments from the German economics minister. Markets grew fearful that the Fed might either take no action on rates or raise them by as much as ½ percentage point. Either course would threaten problems for currency and bond markets.

The FT-SE 100 Index closed 18.3 down at 2,946.7. Around 4 points of the Footsie fall reflected the heavy setback in GEC, which was among the most actively traded shares after severely disappointing City analysts with virtually unchanged profits. A market now looking for growth of around 6 per cent overall in UK corporate earnings this year is no longer prepared to be forgiving of slow progress, even when accompanied by a cash mountain, as is the case with GEC.

The reaction to GEC's figures helped to upset equities in early trading. However, news that UK manufacturing output had grown by 0.3 per cent in May, and industrial output by 0.1 per cent, was favourably received, as was the UK Treasury monthly report which said that economic indicators signal steady economic recovery. The market was also helped by a trading programme, said to be from NatWest Securities, investment arm of the UK investment bank. A second programme was later identified, with Smith New Court believed to be the house responsible.

Account Dealing Dates		
*First Dealings:		
Jun 20	Jul 4	Jul 18**
Option Declarations:		
Jun 30	Jul 14	Jul 28
Last Dealings:		
Jul 1	Jul 15	n/a
Account Day:		
Jul 11	Jul 25	n/a

*New time dealings may take place from two days earlier. **New 10-day settlement system starts

Weakness in sterling against the German D-Mmark was a discouraging factor at first for UK blue chip exporting stocks, although domestic interest rate concerns remained more closely focused around the dollar's progress.

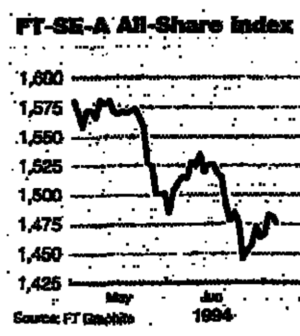
The fall in the US currency as New York opened brought a rash of red on to trading screens in the London equity market. The earlier low point for the day was quickly lost as investors shied away, but nerves steadied as the dollar picked itself up off the floor. London traders went home to watch television for any move by the Federal Reserve.

Once again, a contrary performance from the FT-SE Mid 250 Index, 2.4 firmer at 3,438.2, suggested determined bargain hunting across the broad range of the market. Seaq trading volume of 506.2m shares showed improvement against recent levels, although it remained well short of acceptably profitable levels. Non-Footsie stocks made up around 59 per cent of the day's total.

Retail business, the more convincing valuation of investment activity in equities, remained disappointing as the big investors waited for the FOMC and G7 meetings to bring a guide to near term prospects. On Tuesday, retail business was worth only £968.8m, still well below the levels to which the stock market has become accustomed during its bull phase.

The comments from Herr Rexrodt, the German economic minister, that the Bundesbank had not favoured the last round of dollar intervention further dispelled hopes for concerted action from the G7 meeting. They also served to focus attention on the meeting this morning of the Bundesbank policy council.

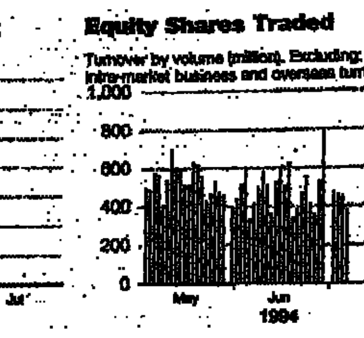
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ **Key Indicators**

Indices and ratios

FT-SE 100	2946.7	-18.3	FT Ordinary index	2305.7	-12.2
FT-SE Mid 250	3438.2	+2.4	FT-SE-A Non Fins p/e	18.69	(18.79)
FT-SE-A 350	1484.9	-6.8	FT-SE 100 Fut Sep	2947.0	-12.0
FT-SE-A All-Share	1475.19	-6.42	10 yr Gilt yield	8.78	(8.73)
FT-SE-A All-Share yield	3.99	(3.98)	Long gilt/equity yld ratio:	2.21	(2.21)

Best performing sectors

1. Water .... +1.3
2. Transport .... +0.9
3. Telecommunications .... +0.6
4. Utilities .... +0.5
5. Insurance .... +0.5

Worst performing sectors

1. Electronic & Elec Eqpt .... -4.5
2. Banks .... -1.7
3. Retailers, Food .... -1.3
4. Tobacco .... -1.2
5. Health Care .... -1.1

Broker support lifts BT

BT consolidated its position as the UK's biggest company, measured by market capitalisation, following a strong buy recommendation from Robert Fleming Securities. BT fully-paid shares settled 6½ firmer at 383p and the partly-paid 5½ up at 264½p. Turnover in the two classes of stock was 16.1m shares.

Mr Laurence Heyworth, telecoms analyst at the stockbroker, set a short term target price of 420p for the fully-paid shares, telling clients that BT's first-quarter figures expected on July 25 should please the market. Fleming expects profits of around £750m, with inland call volume growth estimated at 6 to 7 per cent, against 2 per cent last year. "A little good news could provide a powerful stimulus to the shares," said Mr Heyworth.

The analyst added that BT had become very attractive. "In addition to the yield and price/earnings ratio, BT's firm value per line (i.e. market capitalisation plus debt divided by the number of fixed lines) is now only $1,430, the lowest of the quoted European telecom companies," he said.

GEC disappoints

The market showed its disappointment with preliminary results from GEC, the flagship of the UK's electronics industry, with the stock the worst performer among the FT-SE 100 constituents and sliding more than 8 per cent to its lowest level since January last year.

Explaining the steep fall in GEC shares, dealers said the market had been expecting news of a successor to Lord Weinstock, GEC's managing director, and was surprised at news that he is staying on for a further two years.

Profits of £866m were only a fraction above last year's and well below the consensus forecast of £890m, while the dividend total was in line with most estimates. But analysts pointed out that the profits included an unexpected £18m exceptional charge for litigation costs involving Hughes Corporation, of the US, and that adding that figure back would have put the results virtually in line with most estimates.

Analysts were said to be lowering the current year forecasts from the consensus figure of £960m to a number closer to £900m. Some analysts said the fall in the shares had been overdone. One commented: "The post-results meeting was by no means gloomy and the company's cash generation was better than expected; this could be a good buying opportunity."

At the close GEC was 24 down at 270p, with turnover of 29m shares the highest in a single day since the profits warning issued last December.

US sellers of Pru

Prudential, the UK's biggest insurance group, was among the FT-SE 100's poorest performers following news that AM Best, the US insurance ratings agency, had lowered its rating for Jackson National, Prudential's US subsidiary.

The agency cut the rating because of the interest rate-sensitive and limited nature of Jackson's products.

The stock fell 6 to 294p, with much of yesterday's turnover of 9.1m said to have been carried out by Morgan Stanley, the US investment bank.

The weakness was in stark contrast to most of the other life assurance stocks, which responded to a recent buy recommendation from Morgan Stanley. The house said the smaller companies had been left behind and would outperform. Britannic rose 14 to 421p, Refuge 6 to 286p and United Friendly 33 to 523p. Lloyds Abbey held at 342p after an agency cross of 3.2m shares.

Dixons, the stores and property group, climbed sharply on the release of full-year figures but some analysts reined in their enthusiasm, arguing that the price move did not reflect a return to the good times.

The group profit of £73.3m was in line with analysts' forecasts and, more significantly, there were no shocks from exceptional costs. The 6.6p dividend was also marginally higher than most forecasts. Analysts lifted current year forecasts by about £8m to between £85m and £100m. But some said there had been significant short selling ahead of the figures and argued that yesterday's jump of 19 to 189p merely reflected traders buying shares back again.

J. Sainsbury shed 6 to 396p after the agm statement. Analyst Mr Bill Myers at Yamaichi said there was nothing worrying in the statement and the selling of the shares was possibly a bit overdone. The company said sales were up by 7.1 per cent, in line with City forecasts.

Publishing and media stocks held firm, receiving support from the latest advertising figures, which had begun to leak into the market towards the close of trading.

The Advertising Association reported that the first quarter of the financial year saw real spending growth spurt ahead by 8 per cent. This prompted the association to raise its growth forecast for the year to 13 per cent, from 10 per cent previously, suggesting total advertising expenditure of £7.7bn. The upbeat forecasts provided a welcome balm to newspapers suffering a crippling price war.

Mirror Group Newspapers, which faces severe competition from a cut-price Sun and also has a 40 per cent stake in the Independent, gained 3 at 131p. The Telegraph, which recently cut its cover price to 30p, bounced 2 to 357p. Among the agencies, which account for about 15 per cent of total spending, Gold Greenlees Trott and Abbott Mead Vickers held at 177p and 664p respectively.

Pharmaceuticals issues were supported by the after-effect of continued US buying. Glaxo was 12 higher at best and closed 4 up at 559p. There was further assistance from news that the company had received permission to manufacture and market a nasal drug, Flixonase, in Japan.

Taunton Cider sparkled with a rise of 12 to 162p after improved profits of £20m and stating that since the start of the year it had reversed inroads made into its business by launching aggressive promotions and cost-cutting which had left its own operating margin untouched.

British Airways was one of the best performers in the FT-SE 100 as the stock continued to benefit from better than expected traffic figures on Tuesday. The shares added 11 at 403p on trade of 6.2m. NatWest Securities urged investors to buy the stock.

Morgan Crucible tumbled 16 to 326p on reports that Cazenove was negative.

MARKET REPORTERS:
Peter John,
Joel Kibazo,
Steve Thompson.

■ Other statistics, Page 22

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (8).
ELECTRNC & ELECT EQUP (3) Microvitec, Nokia Prf., TGI, ENGINEERING (1) Castings, ENG, VEHICLES (1) UPF, MEDIA (1) Avesco, OTHER SERVS & BUSNS (1) Great Southern, SUPPORT SERVS (1) Hawtal Whiting.
NEW LOWS (167).
GILTS (1) BANKS (1) Banco Bilbao Viz., BUILDING & CNSTRN (4) Avonside, Berkeley, McAlpine (A), Prowting, BLDG MATLS & MCHTS (3) Alrcus, Titon, CHEMICALS (3) AGA, BTP, Engelhard, DISTRIBUTORS (8) Diploma, Enterprise Comp., Gardiner, Hertons, Headlam, Wills, DIVERSIFIED INDLS (3) Kvaerner B, Staveley, Tomkins 5¼pc Prf., ELECTRICITY (1) China Light, ELECTRNC & ELECT EQUP (8) Azlan, GEC, Hewlett-Packard, Indl. Control, LPA, Scantronic, ENGINEERING (8) Bullough, David Brown, Morgan Crucible, Quadramatic, TransTec, ENG, VEHICLES (1) Motor World, EXTRACTIVE INDS (4) Ashanti, Bracken, East Rand, Odon, FOOD MANUF (1) Grand Central, HEALTH CARE (7) Assoc. Nursing, Beapak, Goldsborough, London Intl., Quality Care Homes, Takare, Westminster, HOUSEHOLD GOODS (2) Fine Decor, Llenhaem, INSURANCE (16) INVESTMENT TRUSTS (28) INVESTMENT COMPANIES (7) Enviromental, JF Philippine, Jakarta, Latin American Extra Yld., Malacca Pig., South America, Walshomes, LEISURE & HOTELS (6) Allied Leisure, Groupe Chez Gerard, Magnolia, Rank 5¼p (Net) Prf., St James Beach Hotel, MEDIA (3) CentreGold, Pearson, Storm, OIL EXPLORATION & PROD (3) Command, Coplex, Evergreen, OTHER FINANCIAL (4) BWD, Bancaire Cie, Cater Allen, Towry Law, OTHER SERVS & BUSNS (1) General Motors Uts., PHARMACEUTICALS (1) Astra B, PRTNG, PAPER & PACKG (6) Ferry Pickering, Inveresk, SCA B, Stora B, Wace 8pc Prf., Waddington (J), PROPERTY (3) Dwyer, HK Land, Olives, RETAILERS, FOOD (2) Geest, Kwik Save, RETAILERS, GENERAL (7) Bolterware, Carpetright, Country Casuals, Courts, Great Universal, Lloyds Chemists 7¾p Prf., Rosebys, SPIRITS, WINES & CIDERS (1) Guinness, SUPPORT SERVS (7) BET, Capita, Chubb, Computerised Fin., Macro 4, Mitsys, Quality Software, TELECOMMUNICATIONS (2) Cable & Wireless, Do 7pc Cnv. 2008, TEXTILES & APPAREL (4) Jones Stroud, Leeds, Leslie Wise, Marling, TOBACCO (1) Rothmans Uts, WATER (2) Cheam A, Do B, AMERICANS (7).

EQUITY FUTURES AND OPTIONS TRADING

Dealers in the derivatives reported a dull session as uncertainty over US and German interest rates overshadowed trading, *writes Joel Kibazo.*

In futures, the September contract on the FT-SE 100 started trading at 2,955, Following a bout of sideways trading, the contract moved gently forward, with some encouragement drawn from comments from the Treasury suggesting a steady recovery of the UK economy.

A firm performance in UK gilts brought a further advance in September and and it hit a high of 2,970 over lunch. Significantly, volume remained poor, an indication that many of the market's leading participants had chosen to remain on the sidelines ahead of news on the US dollar and the outcome of today's meeting by the Bundesbank.

However, active selling, mainly by independent (local) traders, emerged in the mid-afternoon following an initial retreat in US bonds.

September then fell to a low of 2,936 before recovering to finish at 2,947, at a premium to cash but 4 below its estimated fair value premium of 5 points. Volume was 10,763 lots.

Turnover in traded options again showed an improvement. A total of 33,603 contracts was traded, of which 12,184 were in the FT-SE 100 option and 3,118 in GEC, the busiest stock option.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	2955.0	2947.0	-12.0	2970.0	2936.0	10763	50967
Dec	2973.0	2955.5	-12.0	2973.0	2973.0	49	952

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

■ FT-SE 100 INDEX OPTION (LIFFE) (*2947) £10 per full index point

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

Calls 1,375 Puts 1,516 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3850		3900		3950		4000		4050		4100	4150	4200
Jul	1.15	91.4	4.68	51.7	15.2	48	37.2	17.5	72	2.8			

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ **Major Stocks Yesterday**

	Vol. 000s	Closing price	Day's change
ASDA Group†	3,500	54	+¼
Abbey National†	1,900	398	-11
Albert Fisher	2,800	47	
Allied-Lyons†	1,100	546	-3
Anglian Water	801	480	+5
Argos	91	347	
Argyll Group†	1,800	235	-2
Arjo Wiggins†	601	268	-1½
Assoc. Brit. Foods†	89	528	-½
Assoc. Brit. Ports	1,000	260	+9
BAA†	933	803	+8
BAT Inds.†	3,100	398	-5
BET	1,800	106	-3

FT - SE Actuaries Share Indices — The UK Series

	Jul 6	Day's chge%	Jul 5	Jul 4	Jul 1	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	2946.7	-0.6	2965.0	2970.4	2936.4	2848.3	4.20	7.13	16.59	63.57	1102.36
FT-SE Mid 250	3438.2	+0.1	3435.8	3430.4	3415.8	3219.9	3.59	5.95	20.27	58.09	1270.91
FT-SE Mid 250 ex Inv Trusts	3441.5	+0.1	3438.2	3431.4	3416.8	3238.5	3.74	6.43	18.87	60.26	1288.88
FT-SE-A 350	1484.9	-0.5	1491.7	1493.3	1478.7	1425.1	4.06	6.86	17.32	26.58	1137.10
FT-SE SmallCap	1777.55	-0.1	1779.16	1778.79	1777.65	1698.21	3.16	4.22	30.17	23.88	1369.59
FT-SE SmallCap ex Inv Trusts	1755.37	-0.1	1757.12	1756.96	1756.63	1642.21	3.33	4.63	28.01	24.55	1354.69
FT-SE-A ALL-SHARE	1475.19	-0.4	1481.61	1483.03	1469.48	1411.73	3.98	6.86	17.87	25.93	1149.25

■ **FT-SE Actuaries All-Share**

	Jul 6	Day's chge%	Jul 5	Jul 4	Jul 1	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(16)	2571.85	-0.6	2587.60	2597.21	2582.48	2184.80	3.53	4.58	27.56	37.93	1022.02
12 Extractive Industries(4)	3685.81	-1.0	3724.30	3744.25	3734.29	3180.40	3.46	5.48	22.88	43.39	1005.83
15 Oil, Integrated(3)	2527.87	-0.6	2543.20	2551.80	2533.21	2092.50	3.64	4.68	26.53	40.43	1025.82
16 Oil Exploration & Prod(11)	1857.34	+0.3	1852.23	1858.45	1865.94	1906.40	2.60	1.24	80.00†	16.27	1064.93
20 GEN MANUFACTURERS(284)	1912.05	-0.8	1927.74	1926.67	1905.25	1763.80	3.96	4.80	25.73	32.76	964.74
21 Building & Construction(32)	1150.40	-0.4	1154.58	1157.73	1141.88	1026.70	3.35	4.63	27.80	16.51	893.64
22 Building Matls & Merchs(31)	1901.18	+0.4	1894.10	1891.47	1840.59	1629.60	3.86	4.20	29.96	36.07	889.89
23 Chemicals(22)	2326.13	-0.6	2339.50	2342.67	2333.05	2131.80	3.98	4.08	31.74	46.59	1023.43
24 Diversified Industrials(16)	1906.86	-1.0	1926.47	1929.70	1904.28	1856.90	4.73	4.71	26.25	40.00	964.24
25 Electronic & Elect Equip(35)	1838.48	-4.5	1925.32	1920.30	1909.96	1965.10	4.08	7.04	17.29	14.74	880.85
26 Engineering(70)	1787.62	-0.1	1788.54	1785.02	1774.45	1542.90	3.18	4.84	24.83	28.48	1016.27

LONDON EQUITIES

LIFFE EQUITY OPTIONS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	18	41	13
Other Fixed Interest	3	7	5
Mineral Extraction	30	84	86
General Manufacturers	86	169	400
Consumer Goods	21	49	121
Services	60	113	334
Utilities	25	10	10
Financials	53	128	189
Investment Trusts	35	89	344
Others	31	63	40
Totals	362	753	1542

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	June 27	Last Declarations	Sept 29
Last Dealings	July 8	For settlement	Oct 10

Calls: Division Grp, Forte, Royal Ins, Singer & Friedlander, Tullow Oil. Puts: Forte, Royal Ins, Singer & Friedlander.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§120	F.P.	68.0	123	115½	Aero. Hamble	119		W3.74	2.6	3.9	11.8

RIGHTS OFFERS

FINANCIAL TIMES EQUITY INDICES

FT GOLD MINES INDEX

BANKS

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

LEISURE & HOTELS - Cont.

OIL, INTEGRATED

PROPERTY - Cont.

SPIRITS, WINES & CIDERS

TRANSPORT - Cont.

SUPPORT SERVICES

WATER

OTHER FINANCIAL

AMERICANS

LIFE ASSURANCE

MEDIA

OTHER SERVICES & BUSINESSES

CANADIANS

TELECOMMUNICATIONS

TEXTILES & APPAREL

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

RETAILERS, FOOD

PHARMACEUTICALS

INVESTMENT COMPANIES

MERCHANT BANKS

RETAILERS, GENERAL

PRINTING, PAPER & PACKAGING

OIL EXPLORATION & PRODUCTION

TOBACCO

TRANSPORT

LEISURE & HOTELS

PROPERTY

SOUTH AFRICANS

	Notes	Price	+ or -	1994 High	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£27¼	—	£27½	£13½	1,774	2.7	19.9
Barlow	Z	£4⅔xd	-⅛	£5⅔	£3⅔	909.8	0.7	-
Gold Flds Prop R		99	—	108	75	10.1	10.1	8.8
MK Props		85	—	98	85	3.42	10.5	34.9
SASOL		329	-13	352	260	1,894	4.7	-
SA Brews		£11½	-⅓	£15⅓	£10	6,284	2.4	18.9
Tiger Oats	†	630xd	—	838	538	658.4	2.5	13.5
Tongaat-Hulett		648xc	-1	*738¾	427½	486.8	2.4	18.1

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.

q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. ... estimates for 1993. K Yield based on prospectus or other official estimates for 1994. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for ... Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT4894. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (¥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

OTHER UK UNIT TRUSTS

INSURANCES

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Scottish Equitable plc - Contd.

Scottish Life Investments

Sun Alliance Group - Contd.

Cali Insurance Co Ltd

Scottish Provident Intl Life Ass Ltd

Sun Alliance International Life

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Royal Bank of Canada Intl Fd Mgt Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

For Royal Trust see Royal Bank of Canada

Schroder Mngt Services (Jersey) Ltd

Scrimgeour Kemp-Gee Mngmt., Jersey

TSB Trust Funds (CI)

Warburg Asset Management Jersey Ltd

Worldinvest (Managers) Jersey Ltd

Valued weekly. * Mondays. † Wednesdays.

LUXEMBOURG (SIB RECOGNISED)

Fleming Group - Contd.

Foreign & Colonial Emerging Markets Ltd (u)

Frontrunner I (u)

Gartmore Luxembourg SA (u)

HSBC Investment Funds Luxembourg SA (u)

S.G. Warburg Asset Mngmt Lux SA

LUXEMBOURG (REGULATED)(**)

H.C.M. HYPO Capital Mgt Luxembourg SA

Templeton Worldwide Investments

OTHER OFFSHORE FUNDS

Emerging Markets Management

Jardine Fleming Unit Trusts Ltd - Contd.

Portuguese Investment Fund Ltd

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Dollar ailing

The dollar lost more ground against both the D-Mark and the yen yesterday as markets assumed the Federal Reserve Board would leave interest rates unchanged for the time being, *writes Motoko Rich.*

The US currency lost about a pfennig and a half against the D-Mark to close in London at DM1.5685 from DM1.5826. Against the yen, the dollar closed above session lows of Y97.70 in London at Y98.125 from Y98.825.

Germany's currency remained strong in Europe as investors continued to pressure the Swedish krona, the Belgian franc and the Italian lira while markets focused on these countries' budget deficits.

Sterling followed the dollar down against the D-Mark, hitting a 15-month low against the German currency.

As South African president Mr Nelson Mandela reassured businesses that economic policy would remain unchanged under new finance minister Mr Chris Liebenberg, the financial rand held steady against the dollar.

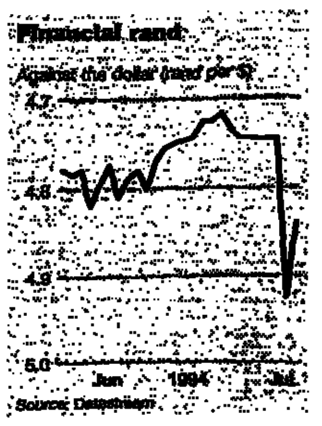
■ As the markets awaited an announcement on the final day of the meeting of the Federal Open Market Committee, the policy-making arm of the Federal Reserve Board, investors bearishly assumed a dollar support package was not forthcoming and pushed the dollar down to a 14-month low against the D-Mark.

Markets were not expecting a rise in US interest rates and when the Fed added reserves to the banking system, it signalled no monetary policy changes.

In late trading the dollar came off its session lows as analysts suggested the Fed could be waiting to make an interest rate move tomorrow when the US employment figures are released.

Hopes for concerted intervention or the emergence of co-ordinated interest rate policies to rescue the dollar collapsed when German economic minister Mr Guenter Rexrodt indicated the Bundesbank had been opposed to the most recent round of intervention on behalf of the dollar.

Financial rand



Source: Datastream

■ Pound in New York

Jul 6	—Latest—	– Prev. close –
£ spot	1.5520	1.5434
1 mth	1.5514	1.5428
3 mth	1.5509	1.5425
1 yr	1.5468	1.5387

Mr David Cocker, economist at Chemical Bank, said Mr Rexrodt could be playing a psychological game and setting a bear trap. "But I do not think the German administration or the Bundesbank are overly concerned about the level of the dollar against the D-Mark," he said.

The dollar rallied slightly after Mr Lawrence Summers, undersecretary of the US Treasury for international affairs, said the US currency would be discussed at the G7 economic summit meeting which begins tomorrow in Naples.

■ In addition to benefitting from the dollar's weakness, the D-Mark performed well as it continued to play the safe haven currency for investors repelled by gaping budget deficits in Sweden, Italy and Belgium.

The Swedish krona sagged to SKr5.004 from SKr4.955, breaking through the psychologically important barrier of SKr5.00 against the D-Mark as jittery markets took a negative view of Sweden's raised budget deficit forecast.

The Italian lira was also flirting with an important level of L1000 against the D-Mark as the markets waited for today's publication of Italy's three-year plan, in which the government will need to address its budget deficit. In London the lira closed at L995.5 from L993.8.

Mr Steve Hannah, head of research at IBJ International, said the Belgian franc weakened quite sharply against the D-Mark by Belgian standards, as it normally trades within very narrow margins. "There is a growing concern that the budget will not be settled in a satisfactory way, and that the political coalition is breaking down," he said.

The Belgian franc closed in London at BFr20.67 from BFr20.63 against the D-Mark.

■ Sterling fell to a 15-month low against the D-Mark, mirroring the sickly dollar and further depressed by a rumour that an unnamed UK official said the Treasury would be indifferent even if the pound fell to DM2.00.

Mr Tony Norfield, economist at ABN/AMRO, said sterling performed poorly against the D-Mark in spite of good industrial production figures. UK industrial production rose a seasonally adjusted 0.3 per cent in May after 1.6 per cent in April. Analysts said these figures indicated a healthily steady industrial recovery.

In the UK money markets, the Bank of England provided £217bn at established rates after forecasting a shortage of £850m. The bank provided late assistance of £590m.

■ The markets held their ground with the financial rand as Mr Nelson Mandela reassured businesses that economic policy was on course after the resignation of Mr Derek Keys as finance minister. Mr Mandela said Mr Chris Liebenberg, who replaced Mr Keys after he resigned on Tuesday, would "follow government policy".

The rand closed in London at R4.84 against the dollar from R4.845.

■ The December short sterling futures contract closed at 93.67 from 93.73. The December Euromark contract finished at 94.97 from 94.95.

■ OTHER CURRENCIES

Jul 6	£	$
Hungary	156.836 - 157.082	101.250 - 101.350
Iran	2697.00 - 2700.00	1748.80 - 1750.09
Kuwait	0.4589 - 0.4591	0.2957 - 0.2962
Poland	34851.1 - 34704.5	22370.0 - 22390.0
Russia	3105.20 - 3112.94	2004.00 - 2009.00
U.A.E.	5.6956 - 5.6961	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Jul 6		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. index
Europe													
Austria	(Sch)	17.0871	-0.0594	777 - 965	17.1814	17.0610	17.0833	0.3	17.0777	0.2	-	-	115.1
Belgium	(BFr)	50.2426	-0.0547	186 - 665	50.4250	50.0720	50.2326	0.2	50.2776	-0.3	50.2876	-0.1	116.1
Denmark	(DKr)	9.5587	-0.014	541 - 633	9.5929	9.5402	9.5657	-0.9	9.5824	-1.0	9.6118	-0.6	117.0
Finland	(FM)	8.0483	-0.0263	381 - 585	8.1190	8.0260	-	-	-	-	-	-	82.4
France	(FFr)	8.3425	-0.014	375 - 475	8.3739	8.3324	8.3466	-0.6	8.3536	-0.5	8.3336	0.1	108.4
Germany	(DM)	2.4303	-0.0077	288 - 318	2.4436	2.4244	2.4303	0.0	2.4294	0.1	2.4082	0.9	125.8
Greece	(Dr)	368.225	-0.954	874 - 575	368.161	365.694	-	-	-	-	-	-	-
Ireland	(I£)	1.0115	+0.0023	105 - 125	1.0135	1.0073	1.0119	-0.5	1.0128	-0.5	1.0142	-0.3	104.8
Italy	(L)	2419.82	-3.71	814 - 110	2429.75	2417.72	2427.22	-3.8	2440.57	-3.5	2490.82	-2.9	76.3
Luxembourg	(LFr)	50.2426	-0.0547	186 - 665	50.4250	50.0720	50.2326	0.2	50.2776	-0.3	50.2976	-0.1	116.1
Netherlands	(Fl)	2.7266	-0.0079	253 - 278	2.7414	2.7212	2.7266	0.0	2.7259	0.1	2.7036	0.8	120.6
Norway	(NKr)	10.6807	-0.0154	557 - 857	10.7017	10.6357	10.6551	0.6	10.6676	-0.3	10.6598	0.0	86.3
Portugal	(Es)	250.555	-0.654	396 - 713	251.691	250.236	251.53	-4.7	253.475	-4.7	-	-	-
Spain	(Pta)	202.017	+0.727	835 - 198	202.228	201.349	202.487	-2.8	203.382	-2.7	206.192	-2.1	85.6
Sweden	(SKr)	12.1625	+0.0809	527 - 722	12.2064	12.0387	12.1856	-2.3	12.2205	-1.9	12.3185	-1.3	72.6
Switzerland	(SFr)	2.0436	-0.0023	425 - 446	2.0496	2.0391	2.0424	0.7	2.0394	0.8	2.015	1.4	121.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.4
Ecu	-	1.2730	-0.0025	721 - 739	1.2779	1.2708	1.2739	-0.9	1.2703	0.9	1.2761	-0.2	-
SDR†	-	0.940829	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5483	+0.0089	457 - 469	1.5489	1.5373	-	-	-	-	-	-	-
Brazil	(R)	1.4156	-0.0156	127 - 183	1.4185	1.4127	-	-	-	-	-	-	-
Canada	(C$)	2.1472	+0.0078	460 - 483	2.1486	2.1350	2.149	-1.0	2.1541	-1.3	2.1846	-1.7	85.5
Mexico	(New Peso)	5.2641	+0.0311	585 - 697	5.2697	5.2368	-	-	-	-	-	-	-
USA	($)	1.5495	+0.009	490 - 500	1.5500	1.5405	1.549	0.4	1.5485	0.3	1.5444	0.3	63.0
Pacific/Middle East/Africa													
Australia	(A$)	2.1336	+0.0118	321 - 350	2.1380	2.1200	2.1329	0.4	2.1313	0.4	2.1303	0.2	-
Hong Kong	(HK$)	11.9733	+0.068	687 - 779	11.9779	11.9065	11.9652	0.8	11.9614	0.4	11.9882	-0.1	-
India	(Rs)	48.6214	+0.2978	999 - 429	48.6429	48.3330	-	-	-	-	-	-	-
Japan	(Y)	152.045	-0.195	957 - 133	152.870	151.330	151.555	3.1	150.65	3.1	146.565	3.6	192.1
Malaysia	(M$)	4.0362	+0.0231	341 - 382	4.0382	4.0122	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6063	+0.009	034 - 072	2.6072	2.5936	2.6046	0.3	2.6061	-0.4	2.6147	-0.4	-
Philippines	(Peso)	41.8366	+0.243	132 - 600	42.1650	41.5100	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8114	+0.0338	091 - 136	5.8136	5.7778	-	-	-	-	-	-	-
Singapore	(S$)	2.3543	+0.0094	531 - 554	2.3554	2.3442	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.6613	+0.0396	771 - 854	5.6888	5.6404	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.4996	+0.0358	817 - 175	7.5175	7.3873	-	-	-	-	-	-	-
South Korea	(Won)	1248.96	+8.26	834 - 961	1249.61	1241.72	-	-	-	-	-	-	-
Taiwan	(T$)	41.4100	+0.1943	908 - 292	41.4292	41.1930	-	-	-	-	-	-	-
Thailand	(Bt)	38.6910	+0.1939	630 - 190	38.7190	38.4940	-	-	-	-	-	-	-

†SDR rate for Jul 5. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 6		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	11.0275	-0.103	250 - 300	11.1415	11.0260	11.032	-0.5	11.04	-0.5	10.9775	0.5	104.0
Belgium	(BFr)	32.4250	-0.225	200 - 300	32.6900	32.4050	32.4475	-0.8	32.4825	-0.7	32.515	-0.3	105.4
Denmark	(DKr)	6.1689	-0.0451	679 - 699	6.2251	6.1662	6.1764	-1.5	6.1909	-1.4	6.2289	-1.0	105.2
Finland	(FM)	5.1941	-0.0474	892 - 990	5.2552	5.1892	5.1986	-0.6	5.2016	-0.6	5.2461	-1.0	76.6
France	(FFr)	5.3840	-0.0405	825 - 855	5.4307	5.3820	5.3884	-1.0	5.3944	-0.8	5.372	0.2	105.7
Germany	(D)	1.5685	-0.0141	680 - 689	1.5845	1.5665	1.569	-0.4	1.569	-0.1	1.5595	0.6	106.3
Greece	(Dr)	236.350	-2	200 - 500	238.600	236.200	237.7	-6.9	238.55	-3.7	240.85	-1.9	69.3
Ireland	(I£)	1.5319	+0.0054	309 - 329	1.5349	1.5229	1.5307	1.0	1.5286	0.9	1.5196	0.8	-
Italy	(L)	1561.55	-11.53	110 - 200	1575.75	1561.10	1566.4	-3.7	1576.1	-3.7	1566.7	-0.3	76.8
Luxembourg	(LFr)	32.4250	-0.225	200 - 300	32.6900	32.4050	32.4475	-0.8	32.4825	-0.7	32.515	-0.3	105.4
Netherlands	(Fl)	1.7597	-0.0154	594 - 599	1.7770	1.7573	1.7603	-0.4	1.7603	-0.1	1.7503	0.5	105.3
Norway	(NKr)	6.8801	-0.0502	791 - 811	6.9400	6.8746	6.8836	-0.6	6.8916	-0.7	6.8386	0.6	96.2
Portugal	(Es)	161.700	-1.37	650 - 750	163.170	161.650	163	-9.6	165.2	-8.7	171.45	-6.0	94.0
Spain	(Pta)	130.375	-0.29	300 - 450	130.900	130.200	130.75	-3.5	131.405	-3.2	133.905	-2.7	80.9
Sweden	(SKr)	7.8493	+0.0066	455 - 530	7.9070	7.7909	7.8676	-2.8	7.9058	-2.9	8.0643	-2.7	78.4
Switzerland	(SFr)	1.3189	-0.0092	186 - 191	1.3282	1.3175	1.3185	0.3	1.3171	0.5	1.3041	1.1	106.7
UK	(£)	1.5495	+0.009	490 - 500	1.5500	1.5405	1.549	0.4	1.5485	0.3	1.5444	0.3	87.6
Ecu	-	1.2172	+0.0094	167 - 177	1.2181	1.2080	1.2159	1.3	1.2137	1.2	1.224	-0.6	-
SDR†	-	1.45139	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9980	-	979 - 980	0.9980	0.9979	-	-	-	-	-	-	-
Brazil	(R)	0.9135	-0.0155	120 - 150	0.9150	0.9120	-	-	-	-	-	-	-
Canada	(C$)	1.3857	-0.0031	854 - 860	1.3880	1.3854	1.3874	-1.5	1.3915	-1.7	1.4147	-2.1	82.0
Mexico	(New Peso)	3.3973	+0.0004	948 - 998	3.3998	3.3948	3.3983	-0.4	3.4001	-0.3	3.4075	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3770	-0.0003	765 - 774	1.3841	1.3738	1.3773	-0.3	1.3775	-0.1	1.3812	-0.3	85.9
Hong Kong	(HK$)	7.7272	-0.001	267 - 277	7.7284	7.7267	7.7267	0.1	7.7292	-0.1	7.7434	-0.2	-
India	(Rs)	31.3788	+0.01	750 - 825	31.3875	31.3725	31.4588	-3.1	31.6038	-2.9	-	-	-
Japan	(Y)	98.1250	-0.7	000 - 500	98.9700	97.7500	97.91	2.6	97.41	2.9	94.815	3.4	161.5
Malaysia	(M$)	2.6046	-0.0002	043 - 063	2.6053	2.6035	2.5973	3.5	2.5938	1.7	2.6248	-0.8	-
New Zealand	(NZ$)	1.6814	-0.004	807 - 821	1.6861	1.6804	1.6832	-1.3	1.6878	-1.5	1.7095	-1.7	-
Philippines	(Peso)	27.0000	-	000 - 000	27.2000	26.8000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	502 - 507	3.7507	3.7502	3.7511	-0.2	3.7531	-0.3	3.7658	-0.4	-
Singapore	(S$)	1.5194	-0.0028	191 - 196	1.5215	1.5181	1.5186	0.6	1.5183	0.3	1.5204	-0.1	-
S Africa (Com.)	(R)	3.6665	+0.0042	650 - 680	3.6820	3.6550	3.682	-5.1	3.7103	-4.8	3.787	-3.3	-
S Africa (Fin.)	(R)	4.8400	-0.005	300 - 500	4.8750	4.7700	4.8737	-8.4	4.9325	-7.6	-	-	-
South Korea	(Won)	806.050	+0.65	900 - 200	806.200	805.400	809.05	-4.5	812.55	-3.2	831.05	-3.1	-
Taiwan	(T$)	26.7248	-0.03	210 - 285	26.7500	26.7220	26.7448	-0.9	26.7848	-0.9	-	-	-
Thailand	(Bt)	24.9700	-0.02	600 - 800	24.9900	24.9600	25.0425	-3.5	25.17	-3.2	25.65	-2.7	-

†SDR rate for Jul 5. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 5. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 6		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.02	16.61	4.837	2.014	4815	5.426	21.22	498.6	402.1	24.20	4.068	1.990	4.273	3.083	302.5	2.534
Denmark	(DKr)	52.56	10	8.729	2.542	1.069	2531	2.853	11.15	262.1	211.3	12.72	2.139	1.046	2.246	1.621	159.0	1.332
France	(FFr)	60.22	11.46	10	2.913	1.213	2899	3.269	12.78	300.3	242.1	14.58	2.450	1.199	2.573	1.857	182.2	1.526
Germany	(DM)	20.67	3.933	3.433	1	0.416	995.5	1.122	4.387	103.1	83.13	5.004	0.841	0.412	0.884	0.637	62.55	0.524
Ireland	(I£)	49.64	9.445	8.244	2.401	1	2390	2.695	10.53	247.5	199.6	12.02	2.020	0.988	2.122	1.531	150.2	1.258
Italy	(L)	2.077	0.395	0.345	0.100	0.042	100.	0.113	0.441	10.36	8.351	0.503	0.084	0.041	0.089	0.064	6.284	0.053
Netherlands	(Fl)	18.42	3.505	3.059	0.891	0.371	887.1	1	3.909	91.86	74.07	4.459	0.750	0.367	0.787	0.568	55.74	0.467
Norway	(NKr)	47.13	8.966	7.826	2.280	0.949	2269	2.558	10	235.0	189.5	11.41	1.917	0.938	2.014	1.453	142.6	1.194
Portugal	(Es)	20.06	3.816	3.331	0.970	0.404	965.7	1.089	4.255	100.	80.64	4.854	0.816	0.399	0.857	0.618	60.68	0.508
Spain	(Pta)	24.87	4.732	4.130	1.203	0.501	1196	1.350	5.277	124.0	100.	6.020	1.012	0.495	1.063	0.767	75.25	0.630
Sweden	(SKr)	41.32	7.860	6.861	1.998	0.832	1989	2.243	8.766	206.0	166.1	10	1.681	0.822	1.766	1.274	125.0	1.047
Switzerland	(SFr)	24.58	4.676	4.082	1.189	0.495	1183	1.334	5.215	122.6	98.83	5.949	1	0.489	1.050	0.758	74.36	0.623
UK	(£)	50.24	9.558	8.343	2.430	1.012	2419	2.727	10.66	250.5	202.0	12.16	2.044	1	2.147	1.549	152.0	1.273
Canada	(C$)	23.40	4.452	3.886	1.132	0.471	1127	1.270	4.965	116.7	94.08	5.664	0.952	0.466	1	0.721	70.80	0.593
US	($)	32.43	6.170	5.386	1.569	0.653	1562	1.760	6.882	161.7	130.4	7.850	1.320	0.646	1.386	1	98.13	0.822
Japan	(Y)	330.5	62.88	54.89	15.99	6.658	15914	17.94	70.13	1648	1329	80.00	13.45	6.579	14.13	10.19	1000.	8.375
Ecu		39.47	7.508	6.554	1.909	0.795	1900	2.142	8.374	196.8	158.7	9.552	1.606	0.786	1.687	1.217	119.4	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

EMS EUROPEAN CURRENCY UNIT RATES

Jul 6	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.15100	-0.00328	-2.08	5.24	-
Germany	1.94964	1.91691	-0.00372	-1.68	4.81	-
Ireland	0.808628	0.795851	+0.000704	-1.58	4.70	11
Belgium	40.2123	39.6187	+0.0348	-1.48	4.59	11
France	6.53883	6.56233	-0.00097	0.67	2.37	-6
Denmark	7.43679	7.53865	-0.00265	1.37	1.65	-9
Portugal	192.854	197.671	+0.015	2.50	0.54	-17
Spain	154.250	158.949	+0.825	3.05	0.00	-21
NON ERM MEMBERS						
Greece	264.513	288.783	-0.735	9.18	-5.61	-
Italy	1793.19	1911.53	+8.11	6.60	-3.33	-
UK	0.786749	0.787761	+0.002313	0.13	2.91	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6321	0.6348	+0.0031	0.6350	0.6300	28,151	87,135
Dec	0.6347	0.6362	+0.0026	0.6363	0.6346	1,110	3,434
Mar	-	0.6365	-	0.6385	-	7	704

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.0170	1.0248	+0.0078	1.0264	1.0162	17,243	63,957
Dec	1.0272	1.0331	+0.0080	1.0341	1.0272	661	3,592
Mar	1.0410	1.0430	+0.0069	1.0430	1.0410	2	668

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
1.450	9.18	9.16	9.25	-	-	0.19
1.475	6.74	6.84	7.11	-	0.12	0.47
1.500	4.29	4.66	5.16	-	0.42	0.95
1.525	2.11	2.81	3.49	0.27	1.06	1.75
1.550	0.61	1.50	2.21	1.27	2.16	2.90
1.575	0.09	0.68	1.30	3.19	3.81	4.47

Previous day's vol., Calls 6,142 Puts 16,189. Prev. day's open int., Calls 589,436 Puts 501,387

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7545	0.7566	+0.0027	0.7579	0.7545	12,042	48,854
Dec	0.7590	0.7584	+0.0026	0.7590	0.7576	115	952
Mar	-	0.7605	-	0.7605	-	2	10

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5416	1.5428	+0.0004	1.5450	1.5410	6,122	38,475
Dec	1.5430	1.5430	+0.0012	1.5430	1.5430	29	413
Mar	-	1.5430	-	1.5430	-	2	146

WORLD INTEREST RATES

MONEY RATES

July 6	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	6	5⅛	5⅝	6⅛	6¾	7.40	4.50	-
week ago	5¼	5⅝	5½	5¾	6⅛	7.40	4.50	-
France	5¾	5½	5¾	5¾	6⅛	5.10	-	6.75
week ago	5⅞	5½	5¾	5¾	6⅛	5.20	-	6.75
Germany	4.98	4.96	4.96	4.95	5.10	6.00	4.50	5.05
week ago	5.88	4.96	4.95	4.95	5.13	6.00	4.50	5.05
Ireland	5⅜	5⅞	5¹¹⁄₁₆	6⅛	6⅞	-	-	6.25
week ago	5⅜	5⅞	5¾	6⅛	6¾	-	-	6.25
Italy	8¾	8⅛	8⅞	8¾	9⅜	-	7.00	8.00
week ago	8	8⅛	8⅛	8⅜	9⅛	-	7.00	7.85
Netherlands	4.97	4.97	4.99	5.06	5.24	-	5.25	-
week ago	4.94	4.97	4.99	5.06	5.25	-	5.25	-
Switzerland	4	4¼	4⅜	4⅞	4¹⁵⁄₁₆	6.625	3.50	-
week ago	3⅞	4¼	4⅜	4⅝	4⅝	6.625	3.50	-
US	4⅞	4½	4⅞	5¼	5⅞	-	3.50	-
week ago	4⅜	4½	4⅞	5⅜	5¾	-	3.50	-
Japan	2	2⅛	2¼	2¼	2⅜	-	1.75	-
week ago	2⅛	2⅛	2⅛	2⅜	2⅞	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	4⅝	4⅞	5⅜	5⅞	-	-	-
week ago	-	4⅝	4⅞	5¼	5⅞	-	-	-
US Dollar CDs	-	4.42	4.71	5.02	5.60	-	-	-
week ago	-	4.42	4.66	4.96	5.57	-	-	-
SDR Linked Ds	-	3½	3⅜	3¾	4	-	-	-
week ago	-	3½	3⅜	3¾	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 6; 3 mths: 6; 6 mths: 6¼; 1 year: 6⅜. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jul 6	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	5⅛ - 4⅞	5⅛ - 4⅞	5¼ - 5⅛	5⅜ - 5¼	5¹⁵⁄₁₆ - 5¹¹⁄₁₆	6⅛ - 5⅞
Danish Krone	5⅝ - 5⅛	5¾ - 5½	5⅞ - 5⅝	6¼ - 6	6⅝ - 6⅜	6⅞ - 6⅝
D-Mark	5¼ - 5⅛	5⅛ - 5	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5⅜ - 5⅛
Dutch Guilder	5 - 4⅞	5 - 4⅞	4⅞ - 4⅞	5 - 4⅞	5⅛ - 5	5¼ - 5⅛
French Franc	5½ - 5⅜	5½ - 5⅜	5⅝ - 5⅛	5¹⁵⁄₁₆ - 5⅞	5¹⁵⁄₁₆ - 5¹³⁄₁₆	6⅛ - 6
Portuguese Esc.	13½ - 13	14 - 13½	14½ - 13	13¾ - 13¼	12⅞ - 12¼	12½ - 11¾
Spanish Peseta	7½ - 7¼	7⅜ - 7⅛	7¾ - 7½	7⅞ - 7¹³⁄₁₆	8⅛ - 7⅞	8⅜ - 8⅛
Sterling	5⅛ - 5	5⅛ - 5	5⅜ - 5⅛	5⅝ - 5⅜	5⅞ - 5⅞	6⅝ - 6⅜
Swiss Franc	4¼ - 4	4¼ - 4	4⅜ - 4⅛	4⅝ - 4⅜	4⅞ - 4⅜	4⅞ - 4½
Can. Dollar	5⅜ - 5½	5⅞ - 5⅝	6⅛ - 5⅞	6⅜ - 6⅞	7⅛ - 7⅜	8⅛ - 7⅞
US Dollar	4⅞ - 4¾	4⅞ - 4⅝	4⅝ - 4½	4⅞ - 4⅞	5⅜ - 5⅛	5⅞ - 5¾
Italian Lira	9 - 7½	8¼ - 7¾	8⅞ - 8⅝	8½ - 8⅜	8¾ - 8⅝	9⅛ - 9
Yen	2⅛ - 2⅛	2⅛ - 2	2⅛ - 2⅛	2⅛ - 2⅛	2⅜ - 2⅛	2⅝ - 2⅜
Asian $Sing	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 4⅛	4¾ - 4⅝	5⅛ - 5⅛	5¹³⁄₁₆ - 5¹¹⁄₁₆

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.37	94.24	-0.13	94.39	94.20	14,572	56,390
Dec	94.13	93.94	-0.18	94.14	93.94	17,250	38,926
Mar	93.87	93.70	-0.14	93.88	93.70	7,705	33,152
Jun	93.55	93.40	-0.16	93.59	93.40	3,957	24,564

■ THREE MONTH EURODOLLAR (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.68	94.66	-0.02	94.68	94.67	300	2364
Dec	94.00	93.98	-	94.00	94.00	11	1835
Mar	-	93.70	-	-	-	0	1253
Jun	-	93.40	-	-	-	0	380

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.14	95.15	+0.01	95.16	95.11	18306	187562
Dec	94.93	94.97	+0.02	94.98	94.91	29903	189186
Mar	94.65	94.68	+0.01	94.68	94.61	20469	173846
Jun	94.34	94.35	-	94.37	94.31	7789	100859

■ THREE MONTH EUROLIRA INT. RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.28	91.26	-0.08	91.32	91.17	7273	34651
Dec	90.98	90.96	-0.06	91.00	90.88	2138	44284
Mar	90.64	90.62	-0.08	90.66	90.56	390	12569
Jun	90.14	90.12	-0.09	90.14	90.05	105	9859

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.66	95.64	-0.02	95.67	95.61	2292	26719
Dec	95.40	95.40	-0.01	95.43	95.39	1328	10094
Mar	95.10	95.09	-	95.10	95.07	191	9712
Jun	94.78	94.75	-0.01	94.78	94.73	78	1428

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.96	93.91	-0.09	93.96	93.86	1722	11360
Dec	93.72	93.67	-0.10	93.74	93.63	879	9177
Mar	93.43	93.38	-0.09	93.45	93.39	237	3738
Jun	93.05	93.00	-0.08	93.05	92.94	68	827

* LIFFE futures traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.69	94.66	-0.02	94.69	94.68	68,268	447,632
Dec	94.02	93.99	-0.02	94.02	93.97	84,673	417,182
Mar	93.73	93.71	-0.02	93.73	93.69	43,413	309,419

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	95.15	95.14	-0.01	95.15	95.14	1,463	21,286
Dec	94.59	94.59	-0.01	94.59	94.58	399	9,068
Mar	94.28	94.28	-0.04	94.28	94.27	145	1,440

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
9500	0.16	0.18	0.21	0.22	0.01	0.03	0.06	0.25
9525	0.02	0.05	0.07	0.12	0.12	0.15	0.17	0.40
9550	0	0.01	0.02	0.06	0.35	0.36	0.37	0.59

Est. vol. total, Calls 2864 Puts 3920. Previous day's open int., Calls 220481 Puts 151946

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9550	0.22	0.19	0.19	0.08	0.29	0.60
9575	0.09	0.10	0.12	0.20	0.45	0.78
9600	0.03	0.05	0.06	0.39	0.65	0.97

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 305 Puts 1025

UK INTEREST RATES

LONDON MONEY RATES

Jul 6	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 4½	5⅜ - 4⅞	5⅛ - 5	5¼ - 5⅛	5⅜ - 5¼	6¼ - 6⅛
Sterling CDs	-	-	5⅛ - 4⅞	5⅛ - 5⅛	5⅞ - 5⅞	6⅛ - 5⅞
Treasury Bills	-	-	4⅞ - 4⅞	4⅞ - 4⅞	-	-
Bank Bills	-	-	4⅞ - 4⅞	5⅛ - 4⅞	5⅜ - 5⅛	-
Local authority deps.	4⅞ - 4⅞	4⅞ - 4⅞	5⅛ - 5	5⅜ - 5⅛	5⅞ - 5¼	5⅛ - 5
Discount Market deps	5½ - 5¼	5⅛ - 4⅞	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from February 8, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¼	3¼	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 4.9628pc. ECGD fixed rate Stlg. Export Finance. Make up day June 30, 1994. Agreed rate for period Jul 26, 1994 to Aug 25, 1994, Schemes II & III 6.44pc. Reference rate for period Jun 1, 1994 to June 30, 1994, Schemes IV & V 5.1870pc. Finance House Base Rate 5½pc from July 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.40	94.39	-0.02	94.43	94.35	12725	104394
Dec	93.71	93.67	-0.06	93.74	93.63	15231	144471
Mar	93.05	92.99	-0.08	93.07	92.96	4509	67003
Jun	92.45	92.41	-0.06	92.47	92.37	1046	51490

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9425	0.23	0.11	0.08	0.09	0.69	1.34
9450	0.09	0.06	0.05	0.20	0.89	1.56
9475	0.02	0.03	0.03	0.38	1.11	1.79

Est. vol. total, Calls 4246 Puts 14522. Previous day's open int., Calls 201614 Puts 189492

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.25	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	6
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.25
AIB Bank	5.25	Financial & Gen Bank	6	●Smith & Williamson Secs.	5.25
●Henry Ansbacher	5.25	●Robert Fleming & Co	5.25	TSB	5.25
Bank of Baroda	5.25	Girobank	5.25	●United Bk of Kuwait	5.25
Banco Bilbao Vizcaya	5.25	●Guinness Mahon	5.25	Unity Trust Bank Plc	5.25
Bank of Cyprus	5.25	Habib Bank AG Zurich	5.25	Western Trust	5.25
Bank of Ireland	5.25	●Hambros Bank	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Heritable & Gen Inv Bk	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	●Hill Samuel	5.25		
Barclays Bank	5.25	C. Hoare & Co	5.25		
Brit Bk of Mid East	5.25	Hongkong & Shanghai	5.25		
●Brown Shipley & Co Ltd	5.25	Julian Hodge Bank	5.25		
CL Bank Nederland	5.25	●Leopold Joseph & Sons	5.25		
Citibank NA	5.25	Lloyds Bank	5.25		
Clydesdale Bank	5.25	Meghraj Bank Ltd	5.25		
The Co-operative Bank	5.25	Midland Bank	5.25		
Coutts & Co	5.25	* Mount Banking	6		
Credit Lyonnais	5.25	NatWestminster	5.25		
Cyprus Popular Bank	5.25	●Rea Brothers	5.25		

● Members of London Investment Banking Association
* In administration

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 6 / Sch)

		+/-	High	Low	Yld	P/E
AusAir	1,845	-35	2,200	1,750	2.7	—
BkAust	1,080	—	1,270	985	0.8	—
CredPf	704	+1	834	638	1.4	—
EA Gen	3,420xd	+20	4,290	3,225	0.4	—
EVN	1,344	+4	1,713	1,190	1.4	—
Lenzng	1,250	+6	1,387	1,080	0.4	—
OeMv	888	+3	1,041	845	1.7	—
PerlZm	900	—	1,050	895	2.2	—
RadexH	455	-1	488	408	2.2	—
SteyrD	225	+3	258	171	2.7	—
VA Tec	923	+2	948	874	—	—
VeitMg	352	+2	406	328	1.7	—
VoeBrA	629	+7	791	548	2.5	—
VnlAir	472	+3	800	430	1.7	—
Wienbg	3,685	+35	4,340	3,411	1.0	—

BELGIUM/LUXEMBOURG (Jul 6 / Frs.)

		+/-	High	Low	Yld	P/E
Ackrmn	4,210	-5	4,340	3,705	1.7	—
Alcanl	7,610	+10	8,890	7,570	3.2	—
Arbed	4,290	-90	5,300	4,000	—	—
BBL	4,030	-10	4,570	3,880	4.8	—
BidnLx	16,475	+25	19,900	16,050	2.7	—
BGnLPt	24,375	-25	28,950	22,745	2.8	—
BnqNtB	35,900	-75	42,975	35,425	0.0	—
Barco	2,180	—	2,630	2,105	—	—
Bekrt	24,225	+125	28,500	20,350	1.7	—
CBRCim	12,400	+25	13,075	11,625	2.9	—
CMB	2,250	-10	2,700	2,190	3.8	—
Cobepa	5,600	-30	6,200	5,570	4.2	—
CockP	175	-2	202	154	7.4	—
Colryt	7,110	-10	8,800	6,100	1.7	—
Dlhaiz	1,282	-48	1,550	1,282	2.1	—
Electb	5,590	-30	6,820	5,450	7.5	—
ElnAC	3,220	-15	3,781	3,194	4.1	—

NOTES

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, July 6, 1994

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Hvy	21.2m	617	+6
Sumitomo Mtl Ind	9.2m	301	+7
Kawasaki Steel	8.5m	412	-6
Oki Electric	5.5m	814	-3
NKK	5.0m	267	-1
Nippon Steel	5.0m	347	-1
Teijin	4.4m	566	+11
Canon Inc	4.3m	1780	+30
Mitsubishi Oil	4.0m	1100	-20
Fujitsu	3.8m	1110	-30

INDICES

	Jul 6	Jul 5	Jul 4	1994 High		1994 Low	
Argentina							
General (29/12/77)	(u)	18246.97	18170.38	25470.40	16/2	17756.90	20/4
Australia							
All Ordinaries(1/1/80)	1991.2	2003.4	1987.1	2340.60	3/2	1957.40	27/6
All Mining(1/1/80)	983.4	993.1	982.0	1136.10	3/2	904.80	5/5
Austria							
Credit Aktien(30/12/84)	408.09	407.09	413.07	480.86	2/2	398.97	22/6
Traded Index(2/1/91)	1048.24	1043.91	1080.71	1222.25	1/2	1011.38	6/6
Belgium							
BEL20 (1/1/91)	1405.23	1416.97	1432.65	1542.65	9/2	1398.24	27/6
Brazil							
Bovespa (29/12/83)	(u)	35643.0	35809.0	38284.08	29/6	3690.90	3/1
Canada							
Metals Minls♦(1975)	(u)	3680.08	3637.87	3879.59	18/3	3299.08	20/4
Composite♦ (1975)	(u)	4053.60	4053.50	4609.59	23/3	3959.90	24/6
Portfolio§§ (4/1/83)	(u)	1904.16	1900.04	2182.88	1/2	1868.48	28/6
Chile							
IPGA Gen (31/12/80)	(u)	4353.2	4367.5	4867.90	4/2	3991.28	4/4
Denmark							
CopenhagenSE(3/1/83)	362.16	364.12	365.09	415.79	2/2	358.60	22/6
Finland							
HEX General(28/12/90)	1705.5	1704.8	1698.3	1972.80	4/2	1601.10	3/1
France							
SBF 250 (31/12/90)	1274.53	1269.27	1265.36	1505.20	2/2	1265.36	4/7
CAC 40(31/12/87)	1888.99	1876.73	1868.18	2355.93	2/2	1868.18	4/7
Germany							
FAZ Aktien(31/12/58)	779.79	777.74	780.13	859.27	18/5	757.51	27/6
Commerzbank(1/12/53)	2215.7	2206.8	2220.5	2465.50	2/5	2149.30	27/6
DAX (30/12/87)‡	2035.70	2032.69	2054.40	2271.11	16/5	1988.82	20/6
Greece							
Athens SE(31/12/80)	850.72	845.81	832.04	1194.58	18/1	806.67	25/5
Hong Kong							
Hang Seng(31/7/64)	8454.92	8623.19	8628.28	12201.09	4/1	8389.44	4/5
India							
BSE Sens.(1979)	4086.3	4102.0	4085.2	4632.90	20/6	3454.00	5/1
Indonesia							
Jakarta Comp.(10/8/82)	453.69	456.76	458.37	612.89	5/1	453.69	6/7
Ireland							
ISEQ Overall(4/1/88)	1711.94	1703.43	1695.71	2082.16	20/1	1694.14	1/7
Italy							
Banca Comm. Ital (1972)	695.59	691.24	686.84	817.17	10/5	598.65	10/1
MIB General (4/1/94)	1123.0	1116.0	1109.0	1318.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	20629.03	20834.37	20631.93	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	303.43	305.28	304.00	311.71	13/6	258.22	4/1
Topix (4/1/68)	1670.65	1683.49	1672.73	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2542.65	2541.99	2524.81	2542.65	6/7	1873.33	4/1
Malaysia							
KLSE Comp.(4/4/86)	995.36	1004.06	999.58	1314.46	5/1	928.33	4/4
Mexico							
IPC (Nov 1978)	(u)	2276.08	2267.54	2881.17	8/2	1957.33	20/4
Netherland							
CBS TtlRtnGen(End 83)	412.5	416.4	414.3	454.90	31/1	408.30	21/6
CBS All Shr (End 83)	261.8	264.3	263.0	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	1984.14	1987.32	2009.79	2439.84	3/2	1961.30	27/6
Norway							
Oslo SE(Ind)(2/1/83)	1049.66	1050.90	1054.94	1211.19	28/2	980.81	21/6
Philippines							
Manila Comp (2/1/85)	2627.80	2595.16	2645.13	3308.37	4/1	2507.33	9/3
Portugal							
BTA (1977)	2880.7	2880.4	2867.1	3226.60	18/2	2812.80	20/6
Singapore							
SES All-S'pore(2/4/75)	538.18	540.08	540.20	641.61	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	2120.0♥	2173.0	2163.0	2231.00	4/1	1749.00	14/2
JSE Ind. (28/9/78)	6220.0♥	6257.0	6285.0	6757.00	15/6	5446.00	19/1
South Korea							
KoreaCmpEx(4/1/80)**	953.48	960.49	951.23	974.28	2/2	855.37	2/4
Spain							
Madrid SE (30/12/85)	291.43	295.11	300.82	368.31	31/1	291.43	6/7
Sweden							
AffarsvardnGen (1/2/37)	1334.7	1340.2	1358.20	1603.90	31/1	1334.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1233.16	1236.87	1247.63	1423.34	31/1	1216.37	27/6
SBC General (1/4/87)	926.13	928.63	936.46	1093.29	31/1	908.82	21/6
Taiwan							
WeightedPr.(30/6/66)**	6115.16	6084.85	6067.63	6454.52	6/1	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1297.45	1295.64	1274.81	1753.73	4/1	1198.59	4/4
Turkey							
Istanbul Crnp.(Jan 1986)	20509.2	19811.0	19575.6	28883.66	13/1	12988.70	24/3
WORLD							
MS Capital Int (1/1/70)$	616.8*	618.0	616.0	643.00	1/2	581.50	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1312.04	1318.58	1326.87	1540.19	31/1	1303.49	21/6
Euro Top-100 (26/6/90)	1149.08	1154.97	1160.48	1311.01	2/2	1143.08	21/6
JCapelDrgon (31/12/88)	(u)	297.79	297.84	385.19	5/1	298.28	21/3
Barings Emerg.(7/1/92)	152.83	152.44	150.59	182.72	14/2	141.85	21/4

** Sat July 2 : Taiwan Weighted Price 6005.84; Korea Comp Ex 938.30. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jul 6 - 2031.33 -3.31

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Jul	1891.0	1899.0	-	1907.0	1879.0	17,300	35,102
Aug	1891.5	1900.5	-0.5	1912.0	1891.5	-	263
Sep	1896.0	1908.5	+0.05	1921.0	1896.0	-	25,606

Open interest figures for previous day.

US INDICES

Dow Jones	Jul 5	Jul 1	Jun 30	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3652.48	3646.65	3624.96	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	97.04	97.11	97.10	105.61 (21/1)	96.43 (13/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1604.73	1610.47	1595.88	1862.29 (2/2)	1548.02 (20/4)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	178.09	178.16	177.17	227.88 (3/1)	176.71 (24/6)	256.45 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3680.65 (3675.79) Low 3621.73 (3611.04) (Theoretical♠)
Day's high 3667.37 (3650.54) Low 3636.94 (3623.02) (Actual♠)

Standard and Poors	Jul 5	Jul 1	Jun 30	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	446.37	446.29	444.27	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	519.00	516.64	516.40	560.59 (2/2)	510.05 (21/4)	560.59 (2/2/94)	3.62 (21/6/32)
Financial	44.60	44.53	44.18	48.94 (14/6)	41.38 (4/4)	48.49 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	246.51	246.34	245.16	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	423.70	424.72	424.06	487.89 (2/2)	422.57 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	703.69	706.85	705.96	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Jul 1	Jun 24	Jun 17	Year ago
Dow Jones Ind. Div. Yield	2.79	2.75	2.65	2.96
	Jun 29	Jun 22	Jun 15	Year ago
S & P Ind. Div. yield	2.49	2.46	2.42	2.55
S & P Ind. P/E ratio	23.10	23.18	23.51	25.04

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	447.05	446.20	-0.85	447.05	445.60	46,822	196,227
Dec	448.70	448.50	-1.15	448.70	448.40	407	11,001
Mar	-	452.00	-	-	452.00	36	1,995

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
IBM	2,788,000	56¾	-¾
Pepsico	2,288,800	30¼	+⅛
Sears	2,177,100	16⅝	–
Gen Elec	2,047,800	47	+⅛
Merck	1,927,900	30	...
RJR Nabisco	1,663,300	5⅝	+⅛
Philip Morris	1,652,500	52⅝	+½
Wal-Mart	1,604,700	24⅛	-⅛
Gen Motors	1,549,700	49⅝	-⅞
Circus Ent	1,500,200	29⅝	+⅞

■ TRADING ACTIVITY

● Volume (million)	Jul 5	Jul 1	Jun 30
New York SE	192.898	197.288	282.784
Amex	11.119	13.279	15.333
NASDAQ	180.887	201.888	281.781
NYSE			
Issues Traded	2,800	2,781	2,825
Rises	1,077	1,294	949
Falls	1,019	909	1,277
Unchanged	704	678	599
New Highs	20	16	18
New Lows	59	67	111

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close July 6

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
17⅞	13½	AAR	0.48	3.5	454	104	13¾	d13⅝	13⅝	-⅛
16⅞	13	A L Labs A x	0.18	1.3	31	129	13⅞	13¾	13¾	
69⅝	57⅝	AMP	1.68	2.4	24	3779	u70¼	68¾	69⅞	+⅞
72¾	52⅛	AMR			31	4984	60¾	60	60½	+⅛
5	3⅞	ARX			12	78	3⅞	3¾	3¾	
58⅛	38⅝	ASA	2.00	4.5	29	516	44⅞	44¼	44⅝	-⅛
31⅞	25⅞	AbbtL	0.76	2.5	17	9282	30	29⅝	29⅞	
13¾	11⅞	Abitibi Pr	0.50	4.2	8	37	12	11⅞	11⅞	
23⅝	17¾	ABM Ind	0.52	2.5		105	20⅝	20⅜	20⅝	+¼
13⅝	11⅛	Accptcein			25	179	u13¾	13½	13⅝	-⅛
31	23¼	ACE Ltd	0.44	1.8	4	80	24⅝	24½	24½	
12½	10⅛	ACM Gvt In x	1.09	10.0		206	11⅛	11	11	-⅛
10⅛	7⅞	ACM GvOpp	0.80	9.8		169	8¼	8⅛	8⅛	-⅛
10⅝	8⅛	ACM Gvt Sp	0.96	11.6		352	8⅝	d8⅛	8¼	
12	9⅛	ACM Gvt Se	1.08	11.2		270	9¾	9⅝	9¾	
11¾	8¾	ACM Man	1.08	11.5		334	9½	9⅜	9⅜	
9¼	8	ACM Managd	0.72	8.6		109	8⅜	8¼	8⅜	+⅛
15½	8⅞	AcmeClv	0.44	4.1	13	48	11⅛	10¾	10¾	+¾
9¼	8½	Acme Elect			5	50	8⅜	8	8⅛	-⅛
28¾	23	Acordia	0.60	2.1	14	11	28	27⅞	28	
9⅜	5¾	Acuvra	0.36	4.2	2	44	8⅝	8½	8⅝	+⅛
15⅝	11⅞	Acuson			102	193	13½	13⅜	13⅜	-⅛
18⅜	16½	Adams Expr	0.48	2.8	0	403	17⅛	17	17⅛	-⅛
64	46½	Ad Micro	3.00	5.6		46	54	53	53⅜	-⅞
31¾	16¾	AdvMic	3.00	12.0	10	6001	25⅝	24⅞	25	-⅞
6⅞	5	Advest Grp	0.16	3.0	8	22	5¼	5⅛	5¼	
20	15	Advo Inc x	0.10	0.8	103	178	15⅝	d15	15½	+⅛
57¼	49⅜	Aegon ADR	2.95	5.6	11	11	53	52⅝	52⅝	-⅛
65¾	49¾	AetnaL	2.76	5.0	8	2010	55⅝	55⅜	55⅝	
34⅞	25¼	Aflac	0.46	1.3	14	3396	34¼	33¾	34⅛	+⅝
20¼	16⅜	Ahmnsn	0.88	4.6	13	1255	19½	19	19¼	+⅛
4	1⅞	Aileen Inc			1	50	2⅛	2	2	

[illegible]

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Continued on next page

4 pm close July 6

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	1994 Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
57⅞	47⅞	StJoePaper	0.20	0.4	261	15	50	49¾	49¾	+⅛
30¼	26½	StJosL&P	1.80	6.9	13	58	26⅝	d26¼	26¼	-⅜
45	37¾	StPaul	1.50	3.6	4	3162	41⅛	40¾	41⅛	+½
9⅞	6	Salant Crp			8	115	6¾	6⅝	6⅝	
49⅞	35½	Sallie Mae	1.40	3.9	7	2371	35⅞	d35½	35⅝	
13⅞	11⅞	Salomon Br	0.28	2.3		130	12⅝	12⅛	12¼	-⅛
62¼	44¾	Salomo	0.64	1.4	6	14411	45⅞	d44¾	45½	-2
25	17½	SnDgGE	1.52	8.3	9	892	18⅝	18⅜	18⅜	-⅛
10	7½	SantaFeEn x	0.16	1.7	9	1596	9⅝	9⅜	9⅜	-¼
15¼	13¾	SFeGd				1533	13⅝	d13½	13½	-⅜
40	31½	SantaFePac	2.80	8.0	16	710	34⅞	34⅝	34⅞	+⅛
28¼	19¾	SanFeP	0.10	0.5	11	8443	20¾	d19⅝	20	-½
26	20⅛	SaraLee	0.64	3.1	14	8763	20¾	20½	20¾	+⅛
50⅛	42⅞	Scana Corp	2.62	6.5	11	165	43⅝	43⅛	43⅜	
20½	12⅞	Sceptr x	1.00	7.8	8	8892	12⅞	d12⅝	12¾	
40½	31¾	ScheraRP			24	467	32⅞	32¼	32¼	-⅝
69⅜	54½	SchrPl	2.04	3.3	14	4227	62½	61⅞	62¼	-¼
62	50¾	Schlmb	1.20	2.0	25	13639	61¼	60⅜	60⅞	-1
33⅞	24⅝	SchwabCh	0.28	1.1	11	3356	25	d24⅝	24¾	-⅛
10¾	6⅛	Schwitzer			22	273	8⅛	6⅞	8	+¾
38⅜	24⅞	SciAtl	0.12	0.4	67	807	33⅝	32⅞	33⅝	+½
16⅞	13	Scotman x	0.10	0.7	13	220	13⅞	13½	13⅞	+¼
53¾	37¼	ScottP	0.80	1.5	13	4128	52⅞	52¼	52¾	-⅛
28⅝	18⅝	ScuddrNAsF	0.21	0.9		72	22⅞	22⅜	22⅞	
12⅝	9⅝	ScuddrNEuF	0.16	1.7		560	9⅜	d9½	9⅝	-⅛
18¼	13½	SeaCnB	0.70	4.7	7	32	15¼	14⅞	14⅞	-⅝
16½	15	SeaC1.4625	1.46	9.4		4	15½	15⅛	15½	+⅛
32	26¼	Seagrm	0.56	1.9	38	5445	30¼	29⅞	30	
29¾	23	Seagull En			36	1272	28½	27⅛	28	+1⅛
31⅝	25⅝	Sealed Air			21	191	27⅞	27¾	27¾	
55⅛	42⅛	SearsR	1.60	3.4	7	4374	47⅞	47⅜	47½	-⅛
13¾	11⅛	Seligm Sel	0.84	6.8		65	12½	12⅜	12⅜	

NASDAQ NATIONAL MARKET

4 pm close July 6

AMEX COMPOSITE PRICES

4 pm close July 6

FINANCIAL TIMES
Thursday July 7 1994

AMERICA

Dow's strength masks broad market decline

Wall Street

Apart from gains in a few blue chip issues, US stock prices were mostly flat to lower in *directionless trading yesterday* morning as the market's attention remained fixed on the dollar and the second day of the Federal Reserve's open market committee meeting, *writes Patrick Harverson in New York.*

By 1 pm, the Dow Jones Industrial Average was up 18.13 at 3,670.61. The strength in the Dow, however, masked weakness in the wider market. The more broadly based Standard & Poors 500, for example, was *down 0.12 at 446.25, while* the American SE composite eased 0.31 to 423.39 and the Nasdaq composite declined 2.06 to 701.53. Trading volume on the New York SE came to 135m shares by 1 pm.

As on Tuesday, trading yesterday was hamstrung by the unwillingness of many participants to become involved in the market while the FOMC was still holding its meeting. When the meeting started on Tuesday, there was considerable speculation that the FOMC might vote to raise interest rates to support the dollar, which has dropped steadily against the yen in recent weeks.

Although by yesterday the consensus was that the FOMC *would not change monetary* policy, and would wait until it saw tomorrow's June employment report before deciding whether to act, uncertainty about the outlook for interest rates continued to restrain demand.

A modest weakening in the dollar during the morning, and a *slight decline in bond prices* which pushed the yield on the *benchmark* 30-year issue back above 7.6 per cent, also contributed to the mostly downbeat session.

The one bright spot was the Dow, which outperformed the rest of the market thanks to *strength in a few stocks, most* notably Texaco, which rose a further $1⅞ to $62¼. Investors have been buying the stock since the company announced a major restructuring on Tuesday aimed at cutting costs, and *the share price was given an* additional lift yesterday by ratings upgrades from two broking houses, Wertheim Schroder and Dean Witter Reynolds.

Another Dow constituent on the rise was Caterpillar, which *climbed $2⅜ to $104⅜. There* was no specific piece of news behind the rise, although it may have been sparked by hopes that the long running industrial dispute between the company and unions may be nearing a resolution.

Dime Bancorp was the most active stock on the NYSE, falling $1⅛ to $9⅞ in volume of 2.5m shares after investors signalled their displeasure at news of the savings bank's acquisition of Anchor Bancorp in a $1.2bn stock swap. The *news, however, lifted Anchor* shares $1/16 to $16.

Salomon dropped $1⅞ to $45⅞ after the company warned that it would incur a loss of $200m in the second quarter because of poor results at its Salomon Brothers brokerage unit. The warning hit other brokerage stocks, *including Merrill Lynch, which eased* $⅝ to $35, and Morgan Stanley, *$½ down at $55⅞.*

Canada

Toronto eased in sluggish early trade on soft gold shares and weaker conglomerates. The *TSE 300 composite index* had declined 17.19 to 4,036.37 by midsession in 18.94m shares valued at C$231m.

Precious metals showed the worst decline, losing 200.43, or 2.1 per cent, at 9,168.17 as bul*lion slipped on the* New York Comex market.

Active issues included Nova Corp, up C$⅜ at C$11⅛ in 2m shares dealt, and Methanex Corp, which continued its upward march with a rise of *C$⅜ to C$18 in 921,744 traded.*

Brazil

São Paulo advanced 5.6 per cent in local currency terms in low mid-morning volume, on optimism over the government's anti-inflation plan and a *presidential* election poll expected later this week.

The Bovespa index rose 1,990 to 37,633. Traders said a dip in the São Paulo price of the basic basket of goods of 0.69 per cent between Monday and Tuesday *provided a boost to stocks,* given that inflation was running at 1 or 2 percentage points a day before the government's latest anti-inflation plan came into operation.

Keys resignation adds to S Africa woes

Johannesburg could find little positive news to support prices but limited selling kept losses to a minimum. Tuesday's resignation of Mr Derek Keys as finance minister had caught the market unawares; however, the swift announcement of a replacement steadied nerves and took the sting out of losses.

In addition, a slightly softer bullion price and continued concern about the outlook for world markets depressed sentiment, limiting demand until further concrete factors emerge.

The overall index finished 47 lower at 5,404, industrials lost 47 at 6,220 and golds declined 52 to 2,121. Anglo American relinquished R3 to R225 and De Beers was R1.25 lower at R106.50. Richemont shed R1 to R37.50.

Key industry stocks were firmer, SAB appreciating R1 to R88 and Gencor climbing 15 cents *to R10.90. However, Iscor dipped 8 cents to* R3.42, Barlows receded 75 cents to R34.50 and Remgro eased 25 cents to R25. Banks were also soft, Firstbank losing 25 cents at R21.50.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: July 1 1994	Dollar terms: % Change over week	Dollar terms: % Change on Dec '93	Local currency terms: July 1 1994	Local currency terms: % Change over week	Local currency terms: % Change on Dec '93
Latin America	(209)	586.47	+2.7	-9.9			
Argentina	(25)	836.08	-1.6	-15.9	513,040.53	-1.6	-15.9
Brazil	(57)	250.52	+6.9	+7.6	937,410,992.9	+15.4	+822.4
Chile	(25)	655.73	-0.4	+18.8	1,099.45	-0.9	+15.3
Colombia[1]	(11)	937.83	+0.4	+45.6	1,359.92	-0.6	+46.7
Mexico	(68)	814.44	+2.8	-19.1	1,192.16	+2.9	-11.7
Peru[2]	(11)	138.18	-1.0	+14.3	185.05	-1.0	+16.4
Venezuela[3]	(12)	437.25	-8.2	-26.1	1,980.38	-8.2	+39.3
Asia	(557)	238.89	-2.2	-17.9			
China[4]	(18)	85.65	-4.0	-42.8	93.64	-4.0	-42.9
South Korea[5]	(156)	127.72	+0.2	+8.1	135.15	+0.1	+7.7
Philippines	(18)	275.39	-3.0	-19.1	352.66	-3.0	-20.6
Taiwan, China[6]	(90)	132.45	+0.5	-2.0	133.61	-0.0	+0.0
India[7]	(76)	133.02	-1.3	+14.2	147.10	-1.3	+14.2
Indonesia[8]	(37)	98.47	-2.5	-21.0	115.89	-2.5	-18.6
Malaysia	(105)	260.05	-3.2	-23.3	249.93	-2.7	-25.8
Pakistan[9]	(15)	396.50	+0.4	+2.2	551.18	+0.4	+4.4
Sri Lanka[10]	(5)	181.49	+2.7	+2.4	194.29	+2.5	+1.7
Thailand	(55)	359.90	-0.8	-24.6	357.69	-1.1	-26.0
Euro/Mid East	(125)	104.74	-1.8	-38.1			
Greece	(25)	212.29	-1.8	-8.8	346.20	-1.3	-10.0
Hungary[11]	(5)	180.79	-1.0	+8.5	222.60	-0.3	+10.3
Jordan	(13)	164.17	+1.7	-0.8	232.69	+1.1	-2.8
Poland[12]	(12)	506.58	+9.6	-38.1	720.36	+9.5	-34.8
Portugal	(25)	107.78	-2.8	-5.3	121.78	-2.5	-11.8
Turkey[13]	(40)	98.54	-2.8	-53.7	1,438.16	-4.8	-1.1
Zimbabwe[14]	(5)	248.46	-10.1	+22.9	298.97	-8.2	+39.9
Composite	(891)	299.52	+0.1	-15.8			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

Foreign & Colonial believes the time is right to be moving back into the emerging markets, including some – like Hong Kong, Malaysia and Thailand – which have been hardest hit in the recent downturn. Mr Arnab Banerji, F & C's chief investment officer, told an investment gathering last night that over the last 20 years there were four occasions when emerging markets fell by the magnitude seen in recent months. During the early 1980s the markets were stagnant for two years, but this coincided with the *global recession and the Latin American debt crisis. On other occasions, the downturn* lasted for no more than eight months. Each downturn had followed a rise in US interest rates, along the lines of that seen in late February. All were terminated by a recovery, driven by strong OECD growth. With the US economy strong, the UK recovering, Germany recording expansion and Japan at or near the bottom of its business cycle, Mr Banerji sees *the right conditions to start buying again.*

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JULY 5 1994: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JULY 4 1994: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (69)	165.92	0.3	159.67	103.65	136.52	151.98	0.8	3.63	165.33	159.33	103.36	137.23	150.72	189.15	135.11	135.11
Austria (17)	164.64	-1.2	177.69	115.34	151.92	151.75	-2.0	1.05	166.91	180.12	116.85	155.14	154.93	195.41	142.90	142.90
Belgium (37)	167.72	-0.1	161.40	104.77	137.99	135.04	-0.9	4.10	167.92	161.82	104.97	139.37	136.24	178.67	143.62	147.61
Canada (106)	122.53	-0.4	117.92	76.54	100.82	123.22	-0.2	2.76	123.03	118.56	76.92	102.12	[illegible]	[illegible]	[illegible]	[illegible]
Denmark (33)	259.61	0.3	249.84	162.16	213.60	219.41	-0.5	1.36	258.86	249.46	161.83	214.85	[illegible]	[illegible]	[illegible]	[illegible]
Finland (24)	147.32	1.1	141.78	92.03	121.21	162.06	0.7	0.89	145.65	140.36	91.05	120.89	[illegible]	[illegible]	[illegible]	[illegible]
France (97)	161.39	1.3	155.32	100.82	132.79	137.33	0.4	3.26	159.34	153.56	99.61	132.25	[illegible]	[illegible]	[illegible]	[illegible]
Germany (58)	137.25	0.0	132.09	85.74	112.93	112.93	-0.8	1.83	137.20	132.22	85.77	113.88	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong (56)	350.60	-0.1	337.40	219.02	288.47	347.86	-0.1	3.41	350.90	338.16	219.37	291.25	[illegible]	[illegible]	[illegible]	[illegible]
Ireland (14)	184.12	1.1	177.19	115.02	151.49	169.93	0.7	3.59	182.13	175.52	113.86	161.17	[illegible]	[illegible]	[illegible]	[illegible]
Italy (60)	83.42	1.4	80.28	52.11	68.64	98.00	0.9	1.62	82.22	79.24	51.40	68.25	[illegible]	[illegible]	[illegible]	[illegible]
Japan (468)	170.10	0.8	163.70	106.26	139.96	106.26	0.7	0.72	168.79	162.66	105.52	140.10	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia (98)	460.14	0.7	442.82	287.45	378.60	461.86	0.7	1.77	456.98	440.39	285.69	379.30	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (18)	1910.30	0.2	1838.36	1193.33	1571.74	7094.83	0.2	1.86	1906.29	1837.04	1191.73	1582.21	[illegible]	[illegible]	[illegible]	[illegible]
Netherland (27)	201.40	1.4	193.82	125.81	165.71	183.17	0.5	3.48	198.71	191.50	124.23	164.93	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand (14)	66.12	-1.3	63.63	41.31	54.40	59.17	-0.7	4.04	67.01	64.57	41.89	55.62	[illegible]	[illegible]	[illegible]	[illegible]
Norway (23)	191.37	0.2	184.16	119.54	157.45	180.01	-0.3	1.84	190.95	184.02	119.39	158.49	[illegible]	[illegible]	[illegible]	[illegible]
Singapore (44)	328.61	0.3	316.24	205.28	270.38	230.51	0.3	1.83	327.72	315.82	204.88	272.01	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (59)	263.44	-2.4	253.52	164.57	216.75	278.98	0.1	2.27	269.94	260.14	168.76	224.06	[illegible]	[illegible]	[illegible]	[illegible]
Spain (42)	135.02	-1.4	129.93	84.34	111.09	133.65	-2.1	4.33	136.93	131.96	85.60	113.66	[illegible]	[illegible]	[illegible]	[illegible]
Sweden (36)	197.63	-1.8	190.09	123.39	162.52	229.33	-1.3	1.75	201.06	193.76	125.71	166.90	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (47)	161.00	-0.1	154.94	100.58	132.47	132.58	-1.0	1.83	161.20	155.34	100.78	133.80	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom (205)	186.31	0.0	179.30	116.39	153.30	179.30	-0.1	4.20	186.32	179.55	116.48	154.65	[illegible]	[illegible]	[illegible]	[illegible]
USA (519)	182.06	0.0	175.21	113.75	149.80	182.06	0.0	2.94	182.03	175.42	113.80	151.09	[illegible]	[illegible]	[illegible]	[illegible]
EUROPE (720)	163.36	0.2	157.21	102.05	134.41	147.97	-0.3	3.15	162.97	157.05	101.88	135.27	[illegible]	[illegible]	[illegible]	[illegible]
Nordic (116)	198.63	-0.7	191.15	124.08	163.42	196.30	-0.7	1.52	199.96	192.69	125.01	165.96	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (750)	175.87	0.7	169.25	109.87	144.71	115.14	0.7	1.04	174.68	168.32	109.19	144.97	[illegible]	[illegible]	[illegible]	[illegible]
Euro-Pacific (1470)	170.48	0.5	164.06	106.50	140.27	128.70	0.3	1.89	169.62	163.46	106.04	140.78	[illegible]	[illegible]	[illegible]	[illegible]
North America (625)	178.37	0.0	171.66	111.43	146.76	178.04	0.0	2.94	178.38	171.90	111.51	148.05	[illegible]	[illegible]	[illegible]	[illegible]
Europe Ex. UK (515)	147.30	0.4	141.75	92.02	121.19	129.01	-0.3	2.53	146.73	141.41	91.73	121.79	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Ex. Japan (281)	236.32	0.2	227.43	147.63	194.45	212.92	0.3	3.00	235.87	227.31	147.46	195.78	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. US (1653)	171.00	0.4	164.56	106.82	140.69	131.81	0.3	1.91	170.26	164.07	106.44	141.31	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. UK (1967)	172.42	0.3	165.93	107.71	141.86	144.33	0.2	2.07	171.87	165.63	107.45	142.85	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. So. Af. (2113)	173.14	0.3	166.62	108.16	142.45	146.60	0.2	2.27	172.58	166.31	107.89	143.24	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1703)	178.07	0.1	171.36	111.24	146.51	170.72	-0.1	3.00	177.95	171.49	111.25	147.70	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2172)	173.67	0.3	167.13	108.49	142.89	147.59	0.2	2.27	173.16	166.87	108.26	143.73	[illegible]	[illegible]	[illegible]	[illegible]

Latest prices unavailable for this edition. NAME CHANGE: Univa is now Provigo (Canada). ADDITION: Ina (Italy) (12/7/94).

EUROPE

Varied response to volatility in dollar

There was an awkwardly timed drop in the dollar towards the end of the European afternoon but apathy, rather than apprehension, seemed to be the order of the day in most bourses, *writes Our Markets Staff.*

French and Spanish equities responded in varying degrees; but at Bank Julius Bär in Frankfurt, Mr Gerhard Grebe said the Bundesbank was not unhappy with a gentle decline in the dollar, which would help to dampen German import prices; whereas, he argued, if Buba were to create money to *support the US currency, its* long running problem with inflated M3 growth would be exacerbated.

Short term, this scenario would not be good for the German corporate sector, said Mr *Grebe, but companies would* adjust to the situation.

PARIS blamed the dollar for a wave of futures selling which left equities off the top, the CAC 40 index ending 10.26 up at 1,888.99 after a session's *high of 1,900.12; but* traders said there was little weight behind the move. Turnover stayed light at FFr2.89bn.

Pechiney rose FFr6 to FFr395 as it said its Pechiney International unit should see a stable *first half,* and a positive *full* year. Alcatel Alsthom recovered a further FFr4 to FFr576.

FT-SE Actuaries Share Indices

Jul 6 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1322.00	1321.99	1322.74	1320.50	1318.84	1317.26	1314.19	1312.04
FT-SE Eurotrack 200	1368.35	1369.02	1358.48	1360.11	1368.73	1365.23	1354.65	1348.68

THE EUROPEAN SERIES

	Jul 5	Jul 4	Jul 1	Jun 30	Jun 29
FT-SE Eurotrack 100	1316.56	1328.87	1314.32	1322.54	1331.80
FT-SE Eurotrack 200	1354.71	1365.52	1351.97	1362.96	1362.43

Base 1000 (26/10/90); Highs/day: 100 - 1322.88 200 - 1360.67 Low/day: 100 - 1311.60 200 - 1348.27

MADRID's domestic bond market was pressured by uncertainty over the direction of the US dollar and slowly growing fears of inflationary pressure in Spain. The general *index finished* 3.68, or 1.25 per cent, down at 291.43, a new low for the year. Turnover was light at Pta28.7bn.

There was no obvious pattern: in utilities, Endesa dropped Pta430, some 4 per *cent, to Pta5,500 but Ibedrola* rose Pta3 to Pta898. In banks, Bankinter recovered Pta200 to Pta10,800, but Santander lost Pta115 at Pta4,440.

FRANKFURT was trapped in a narrow range in spite of *another repo rate cut, the Dax* index rising 3.01 to 2,035.70 on the session and easing to 2,031.33 in the post-bourse, although dealers had said that it would be bad for equities if the dollar fell again – as it did, *in the last hour of Ibis trading.*

Turnover fell from DM5.7bn to DM4.6bn. Viag, the utility based combine, was one of the few stars of the day, rising DM8 to DM468.50 after forecasting higher 1994 profits and a rise in dividend next year. However, the construction *group, Philipp Holzmann,* dropped DM18 to DM900 after saying that orders fell in the first five months of 1994.

MILAN was unable to *sustain early strength as attention* turned again to today's expec*ted announcement of budget* details. The Comit index added 4.35 at 695.59, although the late weakness was reflected in a 50-point fall in the real-time Mibtel index.

Ina was quoted at L2,430 as it *made its market debut, slightly* above the L2,400 price set by the treasury for its sale of 53.5 per cent of the insurer. At the same time, Ina said that life insurance premiums grew by 25 *per cent in the first five months of the year.*

Alitalia jumped L63, or 6.7 per cent, to L1,000 in a technical rebound from recent lows. Analysts also suggested that the government go-ahead for the modernisation of Milan's second airport, which is important for the airlines industrial strategy, overcame worries about yesterday's strike by cabin crew and threatened *industrial action by flight and* ground staff next Monday.

ZURICH was easier in quiet trade in response to the lower dollar, a weak futures market and a continuing absence of buying interest. The SMI index gave up 10.8 to 2,598.9, with dollar related industrial issues *feeling some pressure.* Roche certificates fell SFr50 to SFr6,280.

AMSTERDAM featured a strong performance by KLM in an otherwise subdued market and the AEX index slipped 4.34 to 385.36.

Strong US demand took KLM 60 cents higher to close at Fl 52.80, after touching Fl 53.70, in response to a favourable article in an American financial newspaper, which said that *its co-operation* with Northwest was paying off.

COPENHAGEN reflected the effect of general and specific fears in ultra-thin turnover. Topdanmark, the ailing Danish insurance and finance services *group, paid the price for fore*casting a current year loss approaching DKr200m on Tuesday, the shares weakening DKr76, or 9.5 per cent, to DKr724 in minimal turnover. Novo Nordisk declined DKr10 to DKr680 on dollar uncertainties, but the KFX index eased only 0.53 to 100.90.

TEL AVIV extended Tuesday's 3.4 per cent recovery, the *Mishtanim* index rising 8.48, or 5.5 per cent, to 161.51. Turnover contracted from Shk179m to Shk168m, dealers maintaining that it would have been higher if they could have found sellers to match yesterday's *buying orders.*

WARSAW advanced for the third day in a row, the Wig index rising 380.7, or 4.3 per cent, to 8,893.4, but volume fell a sharp 18.5 per cent to just above 1m shares. Three recently listed stocks, Amerbank, Prochem and Jelfa, rose by the 10 per cent maximum.

ISTANBUL jumped 3.5 per cent as a wave of buying lifted prices towards the close, although much of the activity was attributed to investors switching issues and sellers who were bidding some stocks up to maintain higher prices before cashing in profits.

The composite index rose 698.24 to 20,509.24, regaining the *20,000 level* for the first time since June 2[illegible].

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Late rise in yen leaves Nikkei losing ground

Tokyo

A late rise in the yen triggered arbitrage selling and profit-taking, and the Nikkei 225 average lost ground in low vol*ume, writes Emiko Terazono in Tokyo.*

The index was down 205.34 at 20,629.03 after a high for the day of 20,878.78 in the morning, and a low of 20,627.43 just before the close. The yen returned to above Y98 to the dollar, prompting profit-taking *in the high-technology sector* and depressing the futures market.

Volume amounted to 368m shares, against 391m. Small-lot buying by foreigners and institutional investors failed to counter selling by arbitrageurs and dealers.

The Topix index of all first section stocks receded 12.84 to 1,670.65, while the Nikkei 300 declined 2.85 to 303.43 and falls led rises by 701 to 330, with 160 issues unchanged. In London the ISE/Nikkei 50 index was 0.07 firmer at 1,352.80.

Dealers predicted that equi*ties would trade in a narrow* range throughout this week, ahead of the Naples Group of Seven summit tomorrow. A Japanese broker noted large-lot buying orders around the Nikkei 20,500 mark, but more investors waiting to sell around 21,000.

Arbitrage selling depressed bank shares. Dai-ichi Kangyo Bank declined Y40 to Y1,890 and Bank of Tokyo by Y40 to Y1,560.

High-technology issues, which had recovered earlier this week on the brief retreat of the yen against the dollar, were *sold. Hitachi, Y1,070,* and Fujitsu, Y1,110, slipped Y30 apiece.

Terumo, the medical equipment maker, rose by its daily limit of Y200 for the second consecutive day to Y1,220 on *continued bullishness among* investors over the company's development of a new three dimensional television screen.

Speculative investors continued to buy stocks seemingly linked to the "hot weather" *theme. Traders explained that* Mitsubishi Heavy Industries, the most active issue of the day, put on Y6 at Y817 due to its popular air conditioner, while Mitsubishi Shindoh, an air conditioner parts maker, gained Y8 at Y724. Shikoku *Chemicals, a pool disinfectant* producer, climbed Y40 to Y625.

In Osaka, the OSE average slipped 91.07 to 23,252.30 in volume of 41m shares.

Roundup

Uncertainty about the direc*tion of world and domestic* interest rates left most of the Pacific Rim region lower.

HONG KONG worried about the weak dollar and the impending end of the US FOMC meeting later yesterday, and a late afternoon sell-off left the Hang Seng index down by 168.27, or 1.95 per cent, at 8,454.92, just off the day's low of 8,449.36.

Turnover remained below HK$2bn, registering a preliminary HK$1.84bn against Tuesday's adjusted HK$1.60bn. Brokers said investors were betting on higher interest rates in the short term.

Meanwhile, worries about the profits of property developers, *the focus of the late* sell-off, also dogged the bourse. Cheung Kong weakened HK$1 to HK$31.80 and SHK Properties HK$1.10 to HK$42.20.

SYDNEY surrendered recent gains to sink below the 2,000 barrier on the All Ordinaries index, which finished 12.2 points weaker at 1,991.2 and well below an intraday high of 2,010.5.

Turnover was nearly A$353m. Trade was marked by *Western Mining's* announcement of an A$7.5bn alumina merger with Aluminum Co of America and an A$720m rights issue to fund its side of the deal. The stock dipped 50 cents, or 6.7 per cent, to a two-month low of A$7.02.

WELLINGTON fell on sell orders just before the close, the NZSE 40 index shedding 13.19 to 1,984.14. SEOUL saw profit-taking in blue chips. The composite index fell 7.01 to 953.48.

SINGAPORE's Straits Times Industrial index fell 25.07, or 1.15 per cent, to 2,162.88. Brokers said the sliding US dollar in recent weeks had prompted institutions to sell their Singapore investments as a hedge.

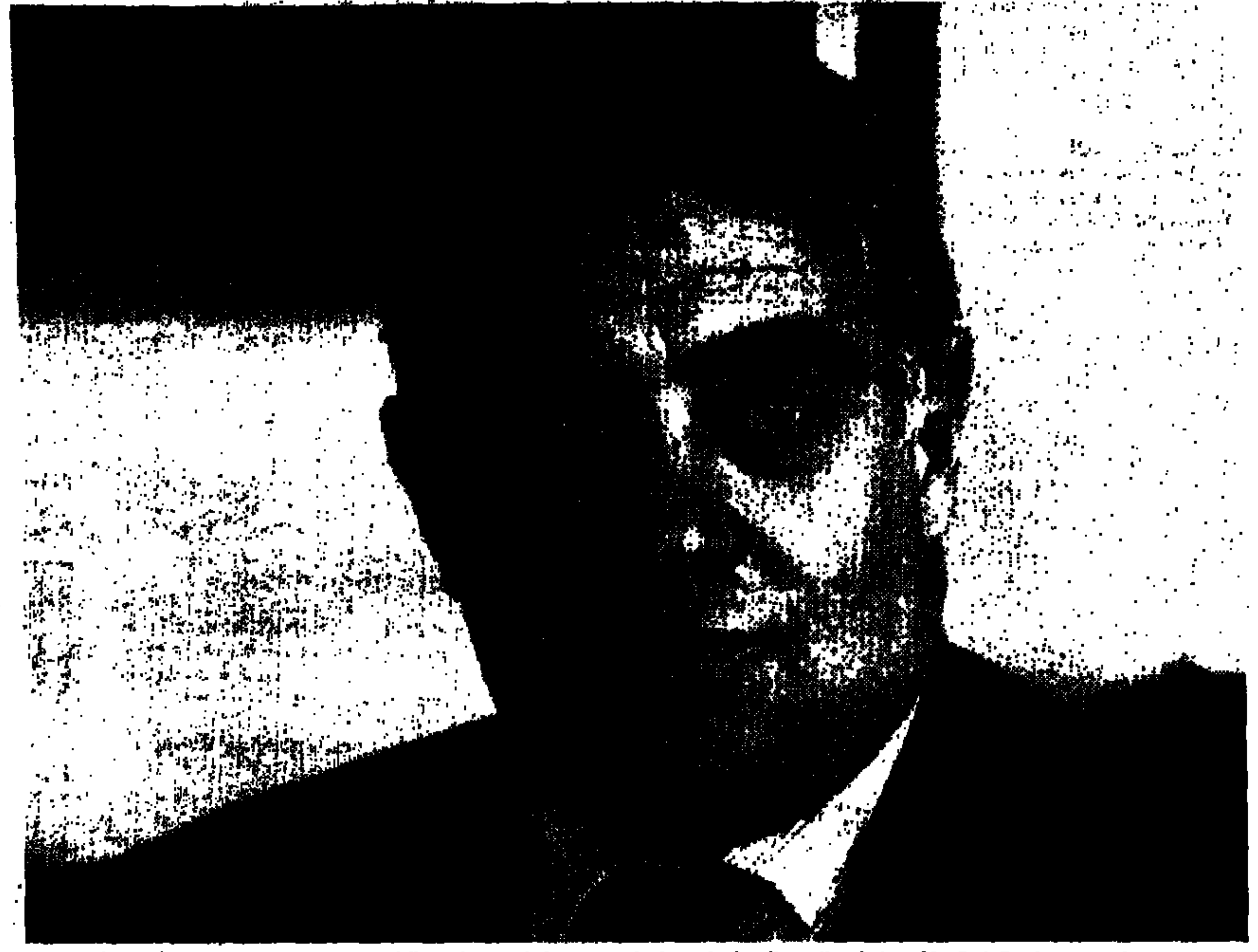
KARACHI tried to rise on new account buying early in *the day,* but institutions and investors took to the sidelines, and attendance at the exchange was poor as rains disrupted communications and power supplies. The exchange closed an hour early, and the KSE 100 index lost 3.32 at 2,296.27 in thin volume.

TAIPEI, the exception, concentrated on domestic issues, brokers hoping that the central bank may maintain its loose monetary policy after Tuesday's announcement of June inflation at 2.14 per cent, and the weighted index gained 50.23 at 6,115.18.

THE WORLD TRADE ORGANISATION

The doors are opened wider

Alan Spence and Jon Marks examine what the arrival of Gatt's successor early next year will mean to exporters



Peter Sutherland, outgoing director-general of Gatt. The WTO's influence will depend critically on the choice of its first director-general

The new world trade order to be led from 1995 by the World Trade Organisation promises significantly higher trade flows – if it can avoid becoming bogged down in bureaucracy.

The prevailing economic orthodoxy dictates that barriers to free trade constrain growth in developing and industrialised economies. Distortions to the practice of free and fair trade are, in the long run, bad for the producers as well as the purchasers of goods.

Ironing out distortions and moving towards a more open trading environment – widely known by its English nickname, the level playing field – should therefore be a priority in creating any new world order.

And so it is, with the successful conclusion of the General Agreement on Tariffs and Trade (Gatt) Uruguay Round promising much for exporters by further opening economies to the rigours of competition. Gatt economists have calculated that the new terms of trade introduced by the Uruguay Round could add some $755bn to world exports in the period to 2002.

The critical question now is how well the WTO – the body which will succeed the Geneva-based Gatt and encompass associated responsibilities after January 1 1995 – can deliver on the Gatt promise to create a more open, prosperous international trade order, without itself adding an extra layer of bureaucracy to the process.

The WTO's creation lays the ground for a new, more structured order in world trade. The organisation, for which a headquarters and director-general have yet to be chosen, will police international trade, basing its work on the final act of the Uruguay Round. This document contains 28 agreements to which have been added some 26,000 pages of national tariff and services schedules.

The WTO will comprise Gatt and parallel organisations that are responsible for services and intellectual property. Its general council will be responsible to a ministerial conference that will be held every two years.

The Uruguay Round introduces a dispute settlement mechanism – described by the Gatt as "the new teeth of the WTO" – and the general council will, when necessary, arbitrate in disputes through the new disputes settlement body.

This should further internationalise the practice and policing of free trade. To ensure this, the WTO will have the power to sanction offenders, including the ordering of compensation payments. Those who refuse to comply will face authorised trade reprisals.

Exporters should benefit from a strengthening of the rules and procedures governing trade. For the first time, the trade in farm products, textiles and services are brought under the Gatt disciplines.

Service exporters are expected to be among the main beneficiaries of the changes. The Uruguay Round has brought basic fair-trade principles, such as non-discrimination, to the services sector for the first time.

The Uruguay Round intellectual property agreement is expected to encourage technology transfer – a critical step in promoting industrialised economies. The further opening of public procurement to international competitive bidding has been calculated to expand contract awards tenfold.

The WTO will consolidate these trends at a time when world trade is becoming progressively more liberal. During the seven years it took to negotiate the Uruguay Round, more than 60 countries announced unilateral measures to open their markets.

Even so, bilateral disputes are clearly not a thing of the past and profound differences between rich and poor nations over how the international economic order works hold the seeds of problems in the future.

At the Uruguay Round signing in Marrakesh on 15 April, this view was clearly expressed by Pranab Mukherjee, the Indian commerce minister. Different levels of development between rich and poor nations, he said, have "enough latent heat to melt down the most elaborately engineered structures".

In many sectors the WTO promises progress, but there is still much to do:

- *Manufacturing: frontiers are becoming* more open, with richer countries agreeing to cut their tariffs by 38 per cent in the period to 2002, from 6.8 per cent to 3.9 per cent. Some 43 per cent of imported industrial products will enter duty free, from around 20 per cent now.

Industries that can especially expect to benefit include pharmaceuticals, construction, farm and medical equipment, steel, wood and paper.

To aid developing countries, the WTO intends to reduce tariff escalation, allowing industrialising economies to export more processed versions of primary products.

But anti-dumping remains a contentious issue. The Uruguay Round failed to impose tighter discipline over what is seen by those criticised for dumping as an instrument of non-tariff protectionism.

- *Textiles and clothing:* tariffs are set to be reduced, but exporters complain that most reductions will come at the end of the transition period to 2002. The US and Australia will retain higher tariffs than most of Europe and east Asia.
- **Agriculture:** the introduction of tariffs on imports – rather than non-tariff barriers – could afford EU farmers even more protection than at present. Other measures are more positive: under the associated so-called Blair House accord, subsidised dumping is to be limited over six years. This will affect the largest importers of subsidised EU and US cereals, including Russia and China.

Also to open are rice markets such as Japan and South Korea, where barriers to farm imports must be converted into monetary tariffs and then reduced by 36 per cent. Tariffs on tropical products – the subject of a furious dispute in the EU over bananas – are to be cut by 40 per cent.

The WTO agreement, therefore, offers a great deal of promise. New markets will open. At the Uruguay Round signing in Marrakesh, Tsotomu Hata, the then Japanese deputy prime minister and foreign affairs minister said, "As a result of the Uruguay Round, the Japanese market offers greater opportunities for success by foreign exporters, depending upon their efforts."

If the door to Japan and some other protected markets opens wider, the figures for increased exports given by Gatt experts may not be as over-optimistic as some of the more cautious trade analysts believe.

Exporting remains a difficult business, but if the WTO works as planned, bureaucrats may help to make things easier for those at the sharp end – the practitioners – and the face of exporting will be transformed.

Alan Spence is Editor, International Trade Finance, a bi-monthly newsletter published by Financial Times Business Enterprises. Jon Marks is Associate Editor of International Trade Finance.

Easing the jam: WTO promises significantly higher trade flows *Trevor Humphries*

GUEST COLUMN

The hangover begins to clear

While finance remains tight, Lord Weir sees plenty of potential in international project business in developing countries

Lord Weir: recovery reduces the strain on government budgets and so encourages official support

Apart from general background conditions, the prospects for international project business in developing countries are largely affected by three factors. First is the availability of credit and finance. The second factor affecting individual supplier countries is their competitiveness relative to others. Third, is the existence of demand from credit-worthy buyers.

Finance remains tighter than in the past. The international debt crisis has not gone away. Banks and export credit agencies still suffer from the hangover left by that ill-judged lending binge, but time is a great healer of hangovers.

Banks have made progress rebuilding assets, and the self-inflicted wounds to their lending psychology will recover. Equally, as the world economy recovers, the strain on governments' budgets reduces thus encouraging official support for projects.

The UK should continue to be competitive. The benefits of the devaluation when the UK left the EU have not yet been eroded by unfavourable inflation differentials. I suspect, however, some of our relative advantage has disappeared, as European competitors reduce export prices to maintain workload while recession affects their domestic markets.

In considering the effects of devaluation, the apparent gross amount of devaluation had to absorb several negative factors, before leaving any net gain in competitiveness.

These included a rise in import costs, and the competitive gap and adverse effect on margins, caused by over-valuation. Adding the effect of action by competitors, referred to above, the net benefit of devaluation has been more modest than appeared.

Nevertheless, exchange rate considerations provide no real excuse for exporters.

On export credit terms, exporters will always want improvements. There has been a significant reduction in premiums and, more important, there is now a welcome recognition within the DTI, of the importance of continuing in this direction.

Competitors in the international project business move up and down the league table of relative advantage. The weakness of the dollar causes problems of its own, but is hardly unfavourable for US contractors.

The French continue to enjoy enviable government support somewhat offsetting the probable over-valuation of their currency.

Italy will become less competitive as privatisation starts to produce long overdue financial discipline to an engineering sector, much of which is state-owned.

For a mixture of reasons, German costs are high. The strength and resilience of German management suggests, however, that this may be temporary.

Japan suffers from a high exchange rate. However, their contractors can offset this by purchasing equipment overseas and they are doing just this.

Such a league table is complicated. It is easy enough to suggest positive or negative factors affecting each country, but to set out exactly where each competing country stands is neither easy nor, perhaps, possible.

The third main factor affecting this business is the existence of demand from creditworthy buyers. Here, it is naturally easier to identify the demand than to find the creditworthy buyer, when the finances of many developing countries have been devastated by the international debt crisis.

In South America the demand is there. The existence of creditworthy buyers is a reflection of the competence of financial and economic management in individual countries. There is some way to go, but there are encouraging developments:

- Chile has made significant sustained progress.
- Argentina – for years in the economic hospital – has largely tamed inflation and made a positive start to structural economic reform. Its progress provides an example to other countries of the benefits of promoting economic reform.
- The prospects for Colombia are good, supported by major natural resources.
- Venezuela needs greater stability for its potential to be developed.
- Brazil is as big a question as ever. Its potential for project business remains enormous, but is unfortunately counterbalanced by economic problems of an equal magnitude.

The possibilities in South America are certainly better than they have been for years, but require a much more positive view from British contractors.

The developing countries in Africa remain sad cases. Most discouraging is Nigeria whose natural resources are such that in the period since independence, with effective government, it should have almost ceased to be a developing country at all.

Across much of central Africa, mis-government has impoverished populations and damaged public finances to a degree that project business is rarely supportable except through pure aid.

There are exceptions, and in spite of considerable economic difficulties, Zimbabwe, Ghana, the Maghreb countries, and Egypt remain areas where international project business is possible, even if well below their needs.

By far the best prospects remain in Asia. The possibilities in China are vast and so well-known that it is hardly necessary to describe them. The speed with which they can be realised mainly depends on the amount of finance that can be made available.

Sources of finance will continue to improve as China's exports increase, as companies in China have more direct access to western capital markets, as well-rooted economic growth encourages lenders to support projects and increasing economic self-confidence makes the country more willing to borrow internationally.

India also represents great potential with vast demand. The country has benefited enormously from economic reform. Liberalisation is breaking down the bureaucratic structure and the negative elements of protectionism and socialist ideology which inhibited industry for so long.

The consequent growth in the economy and exports will support project business, as will the developing stock market now providing an outlet for domestic savings The point of no return has almost certainly passed, as far as liberalisation is concerned, and further benefit will come from a favourable perception of India by the international financial markets.

In the rest of Asia, prospects are favourable as Indonesia, Malaysia and Thailand cross the borderline dividing developing countries from the developed. Behind them, the Philippines and Vietnam will offer increasing opportunities.

To sum up, therefore, the message must be that although there remain areas of difficulty, overall prospects for project business in developing countries are good and provided outside factors do not limit the availability of finance, will remain so for a good time to come.

Lord Weir is chairman of the Weir Group

Exporters look to the east

Continued from page 21

Working in collaboration with Yorkshire Water, which itself won a $5.5m plant and equipment supply contract, Birwelco will be involved in the design and construction of a rapid gravity filtration plant for the Daqing oilfield in Heilongjiang province in north-west China. The contract, signed with the China National Technical Import Corporation in May, is part of a $150m oilfield development project.

"China represents a completely new market for us," says Brian Cartwright of Birwelco. "We secured the contract against fierce international competition because we had the best and most economical tender. We are looking at other market areas including Thailand and Taiwan, where there are enormous opportunities".

The company is working on a feasibility project for a waste-powered energy plant in Taiwan in association with local state authorities and private enterprise.

Elsewhere, Vietnam is unfolding as a rewarding export target. Serck Baker, the process engineering subsidiary of Meggitt, specialising in the design and supply of equipment to the oil and gas sector, won its second export contract to Vietnam in June, just weeks after the delivery of its first Vietnamese export contract.

In conjunction with Sembawang of Singapore, Serck Baker will design, project manage, engineer and procure oil and gas production equipment for a major Vietnamese energy production project. The multi-million dollar deal represents Serck Baker's largest-ever export project.

"The Far East market has always been an important market for us, and continues to be," says Jim Dawson, director of Meggitt Energy Division. "And with the decline in North Sea development, this market becomes a great deal more significant."

Smaller companies are also demonstrating the advantages of market diversification. Carbolite, producer of laboratory furnaces, has notched up successes in Turkey, China and, more recently South Africa and India, with exports accounting for more than two-thirds of its £7m annual turnover. As part of a recent £350,000 export contract, the company will supply a continuous hardening and tempering line for an Indian manufacturer of cutting strip.

Norman Short, marketing director, explains: "We look strategically at all markets where we believe export demand is going to come in the next five years. We are looking at Vietnam and are currently negotiating the appointment of a locally-based and well-equipped distributor."

Meanwhile, the defence sector, galvanised by shrinking defence budgets in maturing markets, continues to seek new ventures in the developing world. In late June, Radio Racal won a £7.5m contract for its Tacnet tactical area communications network and field telephone system from a major African customer, for use by the country's armed forces.

The deal, the result of two years' negotiations, involved competitive demonstrations alongside French and Israeli manufacturers' equipment. "This particular deal was significant in that it represented a breakthrough in ousting an incumbent competitor – a French radio company – who had been supplying the customer for several years" says Adrian Day, managing director of Racal Radio Group. "They fought us hard, but our product and cost-effectiveness proved superior."

Earlier in June, the company won a £25m contract to supply the Republic of Korea's navy with a new command control console. It has also booked record export volumes into Latin America. "This year our export order intake is running at twice or three times the level seen over the past five years," says Mr Day.

Rod McNeil

The hangover begins to clear

FT EXPORTER 22

Forthcoming general and specialist trade fairs

GENERAL TRADE FAIRS

Oct 1-9 94	Graz	INT AUTUMN FAIR
Oct 30-Nov 6 94	Havana	FIHAV
Dec 26-Jan 3 95	Venenola	FIV

AGRICULTURAL (NO RELATED MACHINERY)

Oct 12-16 94	Chishinau	AGROTECH
Nov 5-9 94	Bologna	EIMA
Nov 29-Dec 2 94	Utrecht	VIV

AIRCRAFT AND AEROSPACE

Sept 16-18 94	Vienna	AVIATION
Sept 5-11 94	Farnborough	AEROSPACE EXHIBITION
Oct 6-10 94	Beijing	AIRPORT TECHNOLOGY
Jun 11-18 95	Paris	SIAE

AUDIO VISUAL EQUIPMENT

Oct 3-6 94	Tel-Aviv	BROADCAST
Oct 10-14 94	Cannes	MIPCOM (Film & programme marketing)
Nov 9-11 94	Geneva	BOOKS/PRESS

BUILDING/CONSTRUCTION EQUIPMENT AND SERVICES

Oct 4-8 94	Ho Chi Minh City	BUILDING & CONSTRUCTION
Oct 19-23 94	Bologna	SAIE
Nov 2-5 94	Hanover	CONSTRUCTEC
Nov 3-6 94	Bahrain	ARABUILD
July 29-Aug 1 95	Johannesburg	AFRIBUILD
Nov 6-11 95	Paris	BATIMAT

CHEMICALS, COSMETICS AND PHARMACEUTICALS

Aug 29-31 94	Utrecht	DROPHAR (Cosmetics/perfumery)
Sept 21-23 94	Paris	CPHI (Pharmaceuticals)
Nov 8-10 94	Helsinki	KEMIA (Chemicals)
May 16-20 95	Beijing	ACHEMASIA (Chemical engineering)

CLOTHING, FASHION AND FOOTWEAR

Aug 5-7 94	Cologne	HERRENMODEWOCHE (Menswear)
Sept 2-5 94	Paris	SEHM (Menswear)
Sept 4-6 94	Salzburg	CLOTHING & COUNTRY CLASSICS
Sept 4-6 94	Paris	MIDEC (Fashion shoes)
Sept 11-13 94	Dusseldorf	IGEDO
Sept 22-24 94	Miami Beach	JEANSWEAR
Sept 23-25 94	Dusseldorf	GDS (Shoe fair)
Sept 30-Oct 3 94	Paris	INDIGO (Textile design)
Sept 30-Oct 4 94	Milan	MODA MILANO (Ready to wear)
Oct 27-30 94	Hong Kong	FOOTWEAR
Nov 17-21 94	Seoul	SFA
Nov 29-Dec 1 94	Milan	ESMA (Knitwear)

COMPUTERS, OFFICE MACHINERY AND TELECOMS

Sept 12-14 94	Atlanta	NETWORLD INTEROP (Computer networking)
Oct 20-25 94	Cologne	ORGATEC (Office equipment)
Nov 2-5 94	Turin	INTELCOM
Nov 15-18 94	Warsaw	OFFICE TELECOMS
Nov 23-24 94	Stockholm	WINDOWS WORLD
Nov 23-25 94	Lyon	IMAGICAD (CAD/CAM Graphics)
Mar 8-15 95	Hanover	CEBIT
Oct 30-Nov 2 95	Utrecht	INTEROFFICE

DISPLAY AND SHOP EQUIPMENT

Sept 14-16 94	Dublin	EVENT EXPO (Sales promotion)
Oct 24-26 94	Paris	EQUIPMAG (Shopfitting)
Oct 6-8 94	Madrid	EXPOTIENDA (Shopfitting PoS)

ELECTRICAL/ELECTRONIC ENGINEERING

Sept 7-10 94	Dortmund	ELEKTROTECHNIK
Sept 12-16 94	Barcelona	SONIMAG
Oct 4-6 94	Mexico City	CES
Dec 5-9 94	Paris	ELEC

FOOD & DRINK/CATERING

Sep 4-6 94	Dublin	IFEX
Sep 18-22 94	Munich	IMEGA (Food & catering)
Sep 19-21 94	Rotterdam	EXPO FOOD-NONFOOD
Oct 24-26 94	Paris	IPA/SIEL-FIA-MATIC
Nov 10-12 94	Nuremburg	BRAU (Beers & soft drinks)
Nov 24-27 94	Zurich	KASE (Dairy trade)
Jan 29-Feb 2 95	Berne	FBK (Baking & confectionery)

HOUSEHOLD FURNISHING AND EQUIPMENT

Sept 2-6 94	Paris	HOME ACCESSORIES & GIFTWARE WEEK
Sept 9-18 94	Budapest	AT HOME (Furniture interior decor)
Oct 28-31 94	Frankfurt	THEMA DOMUS (Home decor)
Nov 22-26 94	Lyon	SANIPOLIS (Bathroom fittings)
Jan 6-11 95	Hanover	DOMOTEX (Floor coverings)
Feb 21-24 95	Cologne	DOMOTECHNICA (Home/kitchenware)
Feb 18-22 95	Frankfurt	AMBIENTE (Housewares)

HEALTHCARE

Sept 1-4 94	Karlsruhe	AEROBICS
Oct 5-9 94	Geneva	HEALTH FAIR
Mar 27-30 95	Paris	INTERMEDICA

JEWELLERY AND GIFTWARE

Aug 14-18 94	New York	GIFT FAIR
Sept 2-5 94	Milan	BIJOUX (Costume jewellery)
Sept 30-Oct 4 94	Barcelona	BARNAJOYA (Jewellery)
Nov 5-13 94	Turin	PREZIOSA (Jewellery)

MECHANICAL ENGINEERING

Sept 5-8 94	Shanghai	BEARING INDUSTRY
Sept 7-15 94	Chicago	IMTS
Dec 5-9 94	Paris	MIDEST

MINING

Oct 12-14 94	Singleton	MINE/QUARRY
Jan 13-17 95	Calcutta	IMME

PRINTING AND STATIONERY

Jan 21-22 95	Dortmund	EWEPA
May 5-18 95	Dusseldorf	DRUPA

SAFETY, FIRE CONTROL & SECURITY

Sept 28-30 94	Antwerp	SATO
Oct 23-27 94	Tel-Aviv	SECURITY
Nov 22-25 94	Prague	PRAGOSEC
Mar 21-23 95	Johannesburg	SECUREX
Sept 21-Oct 1 95	Berlin	SITECH

SCIENFIFIC AND MEDICAL

Oct 4-6 94	Lyon	INSALABO
Nov 9-12 94	Atlanta	MEDTRADE

SHIPS AND BOATS

Sept 10-13 94	Dubai	MEMOSS
Oct 22-30 94	Hamburg	HANSEBOOT
Jan 21-29 95	Dusseldorf	BOOT
Jun 13-16 95	Oslo	NOR-SHIPPING

SPORTS EQUIPMENT

Sept 4-6 94	Cologne	SPOGA
Sept 29-Oct 2 94	Stuttgart	FIBO

TOYS

Oct 6-8 94	Hong Kong	TOYS & GIFTS
Oct 20-23 94	Essen	SPIEL
Nov 2-6 94	Stockholm	COMPUTER GAMES & HOBBIES

WATER AND AIR TREATMENT

Oct 26-29 94	Sinsheim	AWL TECH
Nov 22-23 94	Cork	ENVIROTEC
Nov 29-Dec 3 94	Jakarta	WATERTECH INDO
APR 5-8 5	Manila	WATER SANITATION

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The doors are opened wider

FT EXPORTER 3

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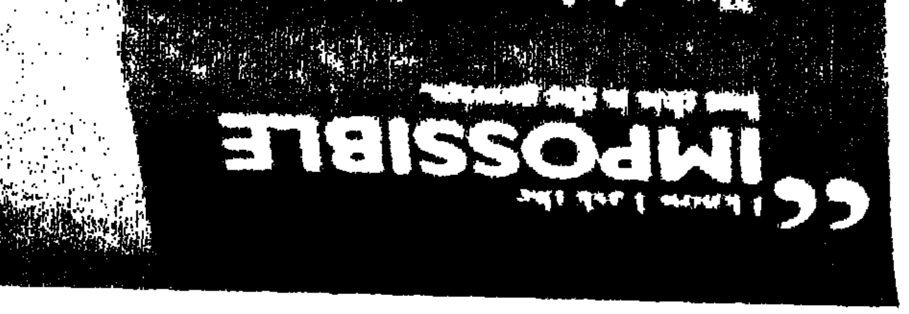
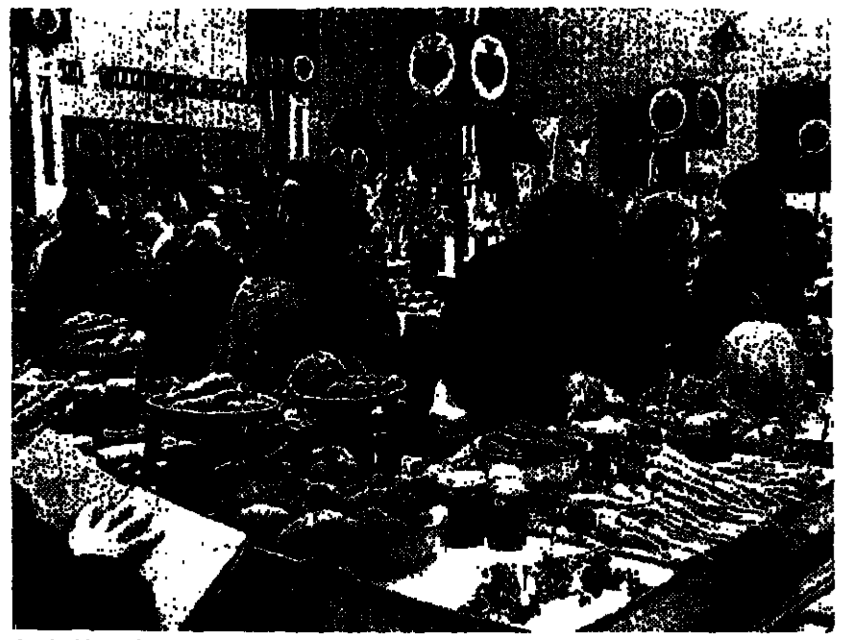




The price of risk: while Singapore (left) is now in the top rank of "countries without special risks", Ukraine (right) has been placed in the worst risk grade *Glyn Genin/James Hill*

GERMAN CREDIT INSURANCE

Five-tier rate system controversial

While cheaper premiums in growth areas may help some, struggling east German businesses will be hit by more expensive rates for countries of the former Soviet Union, says ***Christopher Parkes***

Germany's export credit insurance system came of age on July 1 with the abandonment of a 50-year-old system of uniform premium rates. A five-tier system was introduced which effectively reduced the former standard premium by two-thirds for cover on deals with lowest-risk countries, and doubled it for companies doing business with the world's economic laggards.

While the government saw the change as an occasion for celebration, industry and the opposition remained as resolutely glum as they had through more than two years of consultation.

Certain media commentators were downright aggressive. One leading newspaper, for example, described the move as an insurance policy for the Bonn government paid for by exporters. East German politicians complained that because of the heavier premiums for deals with their manufacturers' traditional Russian and other east bloc countries, export credit insurance would now exclusively benefit west German companies.

Bonn was insistent that the changes should go through. Germany was behind the times, it said, being the only major exporter to apply uniform tariffs. It also had international agreements to honour: subsidy rules in the General Agreement on Tariffs and Trade required export credit insurance schemes to be independent and self-supporting. The old system was increasingly failing to meet these criteria.

At the same time, the Bonn administration was under strict orders from the Bundesbank to cut state spending wherever possible. Mounting deficits in the state-sponsored Hermes insurance programme, administered by the Allianz group, were a clear target. The federal budget subsidised the Hermes programme to the tune of a record DM5.1bn last year, and a further escalation to DM7.5bn (regardless of the impact of the new premiums) has already been earmarked for the current year.

As Günter Rexrodt, economics minister, pointed out recently, DM4.5bn of the 1993 Hermes deficit was due to outstanding debts from the former Soviet Union. While he failed to mention that countries such as Russia and the Ukraine – still important outlets for east Germany's struggling industry – had been placed in the worst risk grade, he made much of cheaper premiums for other countries where west German exporters are hoping to find new growth.

Singapore, Taiwan and South Korea are now in the top rank – "countries without special risks". For export credit insurance purposes, they are now on equal terms with large industrialised nations for which the services of Hermes play no role. Premiums on deals with China and the Czech Republic are reduced by a third.

Mr Rexrodt insisted that higher premiums for Russia and former Soviet Union states offered no disadvantages to German exporters, since competing nations had long since been paying more for cover there.

While the minister side-stepped the implications for east Germany, his ministry officials had earlier ridden rough-shod over protests. At a March meeting in the Baltic state of Mecklenburg-Vorpommern, regional leaders protested that Hermes operated exclusively on behalf of west German interests. A Hermes representative was able to demonstrate the charge as untrue with figures which at the same time starkly illustrated just how important the system was to the region's economy. While Hermes covered 6 per cent at most of all German exports, the proportion rose to 50 per cent in the former GDR.

But Hans Birner from the federal economics ministry could offer nothing more than a repeat of Bonn's earlier urgings that east German industry should find new markets. Small and medium-sized companies especially should not place their faith in the eastern market, he said. Their chances lay in the west. Any companies still concentrating on the former Soviet Union should re-examine their strategies, he added.

The opposition Social Democrats, meanwhile, have been drafting their economic strategies in preparation for the federal elections due in October. The party's leading economics spokesmen last month agreed that under a future SPD government subsidised financing should be made available for important foreign contracts, and that overseas development policy should be interlocked more closely with trade policy.

None of the officials would expand on the "interlocking" proposal – a delicate issue in the light of recent trade-and-aid developments elsewhere.

Dieter Spori, economics minister in Baden-Württemberg, still irritated by the award of a South Korean high-speed rail contract to GEC-Alsthom instead of his local company, Siemens, said cheap financing was essential. It was not acceptable that German "purism" should cost it opportunities. Export promotion should not end with Hermes credit insurance.

German companies found it difficult to establish themselves in developing markets such as China, where US and French concerns had considerable help from subsidised finance and diplomatic support, Mr Spori claimed, turning a blind eye to evidence of clear progress. Some 400 Sino-German joint ventures are already established, and German exports to China last year rose 67 per cent to DM9.6bn.

A recent survey of more than 700 companies by the Munich-based Ifo economics institute yielded 70 per cent of the sample asking for subsidised interest on loans for deals in new markets, while more than half rated the government's foreign trade policy as bad. Heinrich von Pierer, chairman of the Siemens group, was even to be heard grumbling during a trip around China late last year with Chancellor Helmut Kohl.

Though German development aid contributed partially to an underground railway contract in Canton (announced during the visit) he let it be known that he and the rest of German industry expected more co-operation from government.

He suggested that Mr Kohl should use his political weight to roll level the playing field within the European Union, and particular attention should to be paid to France.

Mr von Pierer objected strongly to state-backed interest rate guarantees, where competitors such as the Anglo-French combine GEC-Alsthom, were able to tender for long-term engineering or infrastructural contracts with fixed rates in the knowledge that the French government would cover any difference when bills came to be paid.

It remains to be seen whether the chancellor, current head of the council of ministers, who has pledged several joint EU initiatives with France, which takes over the council next January, is prepared to tackle the issue.

But at least he has shown himself willing to support with his considerable personal presence a plethora of recent industry initiatives, advisory groups and commercial "fishing trips", especially in south-east Asia.

The government has also launched an "Asia Initiative". German ambassadors have been instructed that henceforth the promotion of and assistance to German business interests have equal ranking with their other tasks.

The Asia Initiative also provides a talking shop to complement the networking efforts of industry's own newly-founded Asia-Pacific Committee.

What is lacking, according to the Asia-Pacific Committee, is central guidance and co-ordination of diverse projects in which efforts are duplicated and which may threaten to irritate the most patient potential customers. Chancellor Kohl and Mr Rexrodt led separate business groups to the people's republic last year . . . and so did Hans Kasper, finance minister of Saarland, and Erwin Teufel, prime minister of Baden-Württemberg. His party, including more than 100 of his local business leaders, was touted at home as the biggest commercial delegation ever to visit China.

The Bavarian government, not to be done down, recently took an impressive stand at a technology fair in Bangkok, in which the independent-minded state presented itself as "the thirteenth-largest exporting nation" in the world.

DIARY: FT Exporter reviews recent export contracts and developments in UK support for its exporters and provides a calendar of upcoming international trade fairs

CONTRACT AWARDS

UK operators look to the east

The developing country markets are producing a growing supply of big business deals, says **Rod McNeil**

UK exporters are continuing to make their mark in hotly-contested developing country markets. Significant deals have recently been won in China, Vietnam and Africa.

Michael Heseltine, President of the Board of Trade, underscores the strength of opportunity for UK exporters in China. "The Chinese economy is growing by leaps and bounds. By the end of this century, it will be eight times bigger than it was at the start of the '80s. This matches the best performance of Japan, Taiwan and South Korea."

He adds: "Our exports to China were up by nearly 40 per cent in the first four months of this year compared with last year's performance. But there is much more out there to be won – by Britain's small and medium-sized companies as well as the big players."

Indicative of recent UK export wins in the face of stiff international competition is Taylor Woodrow International's £60m management contract for the re-development of Kowloon station in Hong Kong in a market which the company sees as a gateway into China – in a competitive bid involving six other international contractors. Bruce Russell, managing director of Taylor Woodrow International, says: "We were competing on the strength of our management skills and know-how, not price."

Mr Russell describes the deal as a low-risk project representing part of the company's strategy of breaking into the Hong Kong market. "We have always regarded Hong Kong as an opportunity area and a stepping stone into China," he says.

Two export strategies are being exploited. "First, to enter as a construction adviser or design and construction partner on the back of foreign inward investments, principally in light industrial and commercial development projects," Mr Russell says. "Second, self-developed and financed BOOT (build-own-operate-transfer) projects relating to infrastructure developments in power, water and transportation".

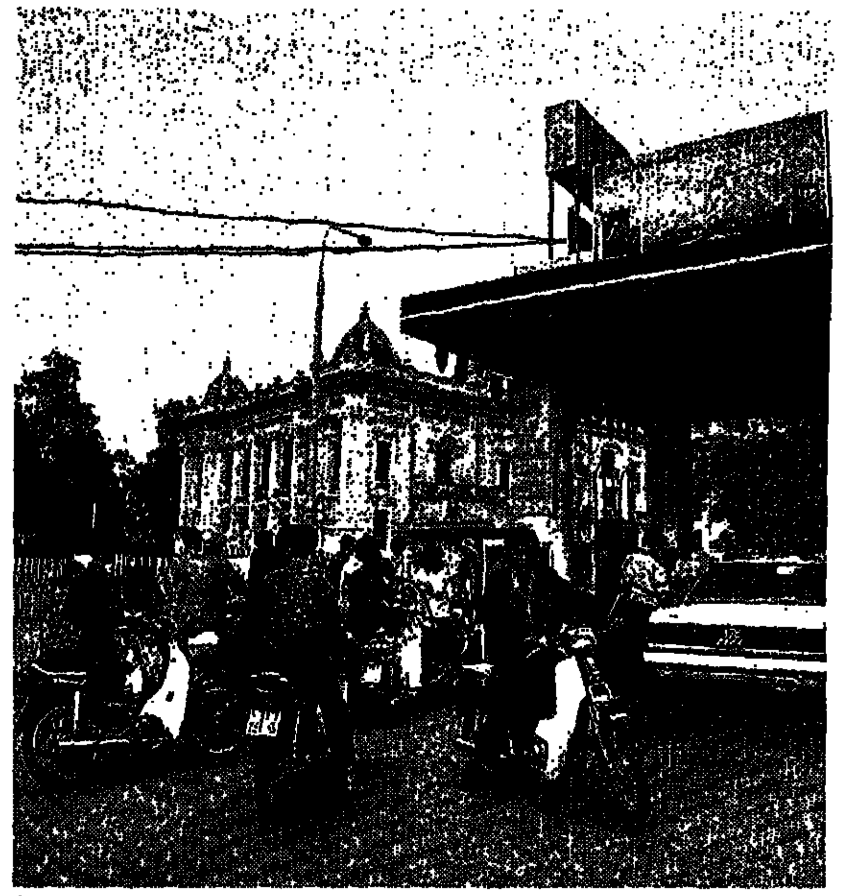
Taylor Woodrow aims to conclude agreements on several additional Chinese projects in the near future. "The Chinese authorities are proving very receptive to foreign participation. We are on a fast-track learning curve, and so are they," says Mr Russell.

Other notable successes to China in recent months include:

- CAD Centre, the Cambridge-based supplier of computer-aided design systems for the process plant and power industries, won orders worth $250,000 for the sale of process plant design software to four customers in the oil and chemical sectors. "We regard China and Asia as an area of great opportunity for our products," says managing director Bob Bishop.
- APV received contracts for the supply of processing equipment to China's manufacturing sector, including a £6m order for dry yeast processing equipment for a large liquor producer.
- Trafalgar House subsidiary Cemetics International won a $6m contract to supply equipment and field advisory services to the Shanyang Smelter sulphuric acid plant in Liaoning province. Cemetics has won 17 contracts to supply equipment to sulphuric acid plants in China since the mid-1980s.

Others have registered their first successes in China. Birwelco, the Halesowen-based specialist engineering contractor to the water, process and waste industries, won – for a British company – a key engineering contract in the water treatment field in China.

Continued on page 23



Petrol queues in Hanoi, Vietnam: its oil and gas sector is a target for equipment exports *Sarah Murray*

ECGD support grows

UK exporters' confident performance in developing markets could be further strengthened if an overhaul of the Export Credits Guarantee Department project financing scheme seduces foreign buyers. Rules on risk-sharing and limits on commercial risk cover are being relaxed.

For five years, the ECGD has been offering cover for so-called Build-Operate-Transfer (BOT) projects, where exporters take on concessions to build and operate infrastructure such as power stations and toll roads. It has received about 100 enquiries and looked at 20 projects in detail but only one – a Russian polyethylene plant in which the John Brown Group has a stake – was carried out on BOT terms.

The late 1980s saw a flurry of interest in BOT financing, particularly in booming south-east Asian markets. But this was a new game for western exporters and for governments in the buyer countries. Many projects never got off the ground, while others were financed through more established means, such as traditional state-guaranteed export credits.

But with many developing nations privatising utilities, BOT is back in the limelight. The UK is well placed to compete as its leading infrastructure operators – in power, water, gas and telecoms – are now in the private sector. Their experience of running such services can be combined with the construction and engineering expertise of the traditional project contractors.

Faced with the resurgence of interest in BOT, last year the ECGD – like many other export credit agencies – began a review of its little-used insurance scheme.

Until now it has only been prepared to cover commercial risks up to 60 per cent of the value of the loan financing a project. It felt that banks and contractor-concessionaires should be prepared to take substantial share of the risk themselves, as a token of their own faith in the project.

Now, the ECGD has decided this risk-sharing can be incorporated in other ways. Henceforth, it may provide full cover for loans meeting up to 85 per cent of the cost of a project, an approach that puts BOT on equal terms with traditional export credit. In cases where it feels obliged to accept a lower exposure, it will still provide a full 100 per cent cover for the loans, even if these are meeting only 70 or 80 per cent of the project cost.

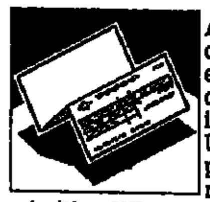
It has also relaxed a previous insistence that governments in buyer countries promise to pay indemnities if they make policy changes that affect the viability of a BOT project (for example, by limiting charges for electricity sold by a power station). The decision on whether to seek compensation will now depend on the circumstances of each case.

Paul Melly

SMALL AND MEDIUM-SIZED ENTERPRISES AND THE EUROPEAN UNION

Providing a window on the world

Mark Ford looks at the range of support provided by the EU to help small and medium-sized exporters in Europe to expand their markets



As Europe seeks to compete with an emerging generation of supranational trading blocs the European Union has made support for small businesses one of its top priorities. UK companies can benefit from a range of facilities.

According to a European Commission document on the subject: "European policy meets a need to provide Small and Medium-sized Enterprises (SMEs) with a European dimension and a 'window on the world' thus helping them to operate less within compartmentalised national markets".

SME development is one of Europe's highest priorities – but export strategists in small firms must look at the range of support that can be obtained from the EU from two perspectives.

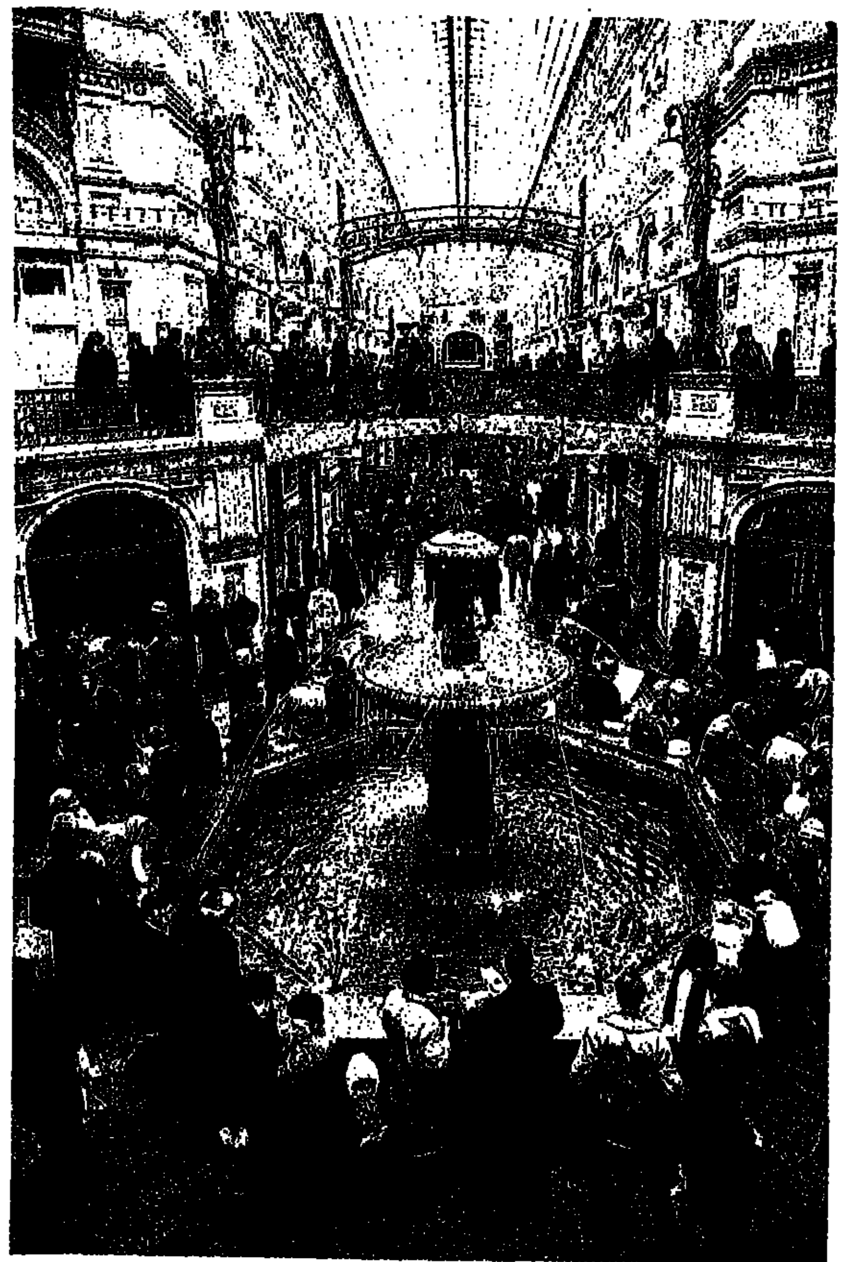
Direct support for export related activity is available but the bulk of support for small firms searching for wider markets is through initiatives that encourage the development of internationally competitive personnel, products, processes and services.

An SME is generally accepted to be a business of fewer than 500 employees with fixed assets having a book value of less than Ecu75m (£57.75m) and with not more than one third of capital held by a larger firm. In particular policy areas, EU programmes and facilities often favour companies which are smaller than the defined maximum size.

The importance which the EU attaches to small firms is manifest in the existence of DGXXIII for Enterprise Policy, Distributive Trades, Tourism and Co-operatives – the EU's directorate (the EU's equivalent to a national government department) dedicated to SME development.

There are two main objectives within the EU's policy towards SMEs. The first, according to the Commission, is to "help create a favourable administrative, regulatory, cultural and social environment sufficiently open and simple so as not to handicap firms in terms of costs and profitability". The second is to provide practical assistance to new and existing SMEs seeking to develop European and wider markets.

To meet these objectives, programmes and facilities are introduced within six project areas for SME development:



Gum department store, Moscow: EU initiatives create opportunities in former Comecon countries

- training;
- information;
- exports;
- establishment of firms and innovation;
- inter-firm and inter-regional co-operation; and
- the provision of finance to help SMEs operate in a European context.

Finance, in the form of loans and grants for SMEs, is made available most often through intermediary national or regional representative bodies, for training, research and development and innovation that can either directly or indirectly help UK companies improve skills or develop products for competing in wider markets.

Facilities which indirectly help SMEs to become more competitive in international markets include a range of initiatives to encourage co-operation. Financial assistance is available, for example, for projects in which SMEs pool their resources with other small firms, with larger firms and with universities and research institutes to develop and market internationally competitive products, processes and services.

Information is perceived to be a leading resource for companies investigating new export markets or who are seeking partners with whom they can collaborate.

European Information Centres provide advice on a range of subjects relevant to SMEs; BC-NET is the EU's computerised system which matches organisations seeking and offering financial, commercial or technical resources.

Facilities which directly help SMEs to export to new and wider international markets are contained within the EU's General Export Promotion Programme in which potential export markets for SMEs are targeted where it is felt that promotion on an EU scale would have an impact on trade development and facilitate market access for EU businesses. Current targets include Brunei, China, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Thailand and Japan.

Still more opportunities for SMEs result from EU policies towards countries on its southern and eastern flanks. Various agreements and EU-sponsored initiatives encourage EU businesses, including SMEs, to bid for work in a range of projects from infrastructure improvements to the provision of training in the emerging democracies in the former Comecon countries and in North Africa.

Activities promoting exports for SMEs from member states include the provision of financial assistance for firms exhibiting in EU-sponsored pavilions at trade fairs and technical seminars designed to promote technological innovations emanating from European organisations. Trade missions are organised for sectors in which EU businesses are internationally competitive and market studies are organised to identify public purchasing and sectoral opportunities for EU companies.

Since 1979 the EU has provided special assistance for firms looking to break into Japanese markets. Activities funded by the Export Promotion for Japan programme have included long-term stays, short-term visits, study trips, sectoral market studies and commercial visits to Japan.

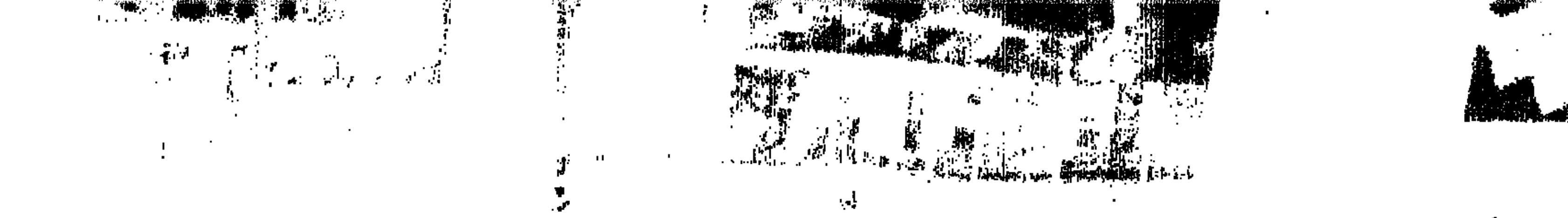
The programme is open to all EU firms with the potential to export to Japan, but businessmen and engineers from SMEs are particularly encouraged to participate as are companies seeking to export sports goods, food and drink, analytical and measuring equipment and jewellery.

The Executive Training Programme (ETP) offers young executives from EU member states the opportunity to acquire, through experience, knowledge of Japanese business methods and culture. In addition to a 12-month Japanese language course, participants attend a parallel programme of seminars and factory visits and six months' work experience within a Japanese company.

According to John Patrick of PA Consultants, which administers the programme for the EU, there is an increasing emphasis within the ETP on the rapidly expanding economies of the Pacific Rim. But he is concerned that too few candidates come from small firms. "The problem is that perceptions about who the programme is for are wrong – people from small firms perceive that ETP is for large multinationals but we are very keen to attract candidates from SMEs – especially from the manufacturing sector."

Export strategists in UK small firms are perhaps becoming too introspective and may be disoriented by years of relentless political rhetoric persuading firms to export to Europe. That small exporters are not taking up opportunities to learn about more distant markets seems to beg a question. Why work hard on developing export strategies for a recession-hit Europe, while ignoring facilities provided by the EU which help SMEs open the "window on the world" and look into the flourishing markets of the Pacific Rim?

Distant market: Shanghai. China is one of a number of potential export markets targeted by the EU's General Export Promotion Programme *Sarah Murray*



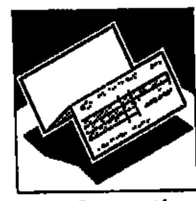
Exporters find more on offer

The controversial Sardar Sarovar dam, in the Indian state of Gujarat: big ticket contracts make headlines, but a high proportion of multilateral financing backs much smaller orders *Picture: Savita Kirloskar/Reuter*

MULTILATERAL LENDING AGENCIES

Competition for orders is tough

The World Bank and other agencies are a vital source of finance for projects in developing countries, writes Alan Spence



Project financing by the World Bank, regional institutions such as the Asian Development Bank (ADB), the EU and other multilateral agencies is big business. International companies secured project contracts financed by the World Bank worth $9,098m in 1992 alone. In heavily indebted developing countries and cash-strapped regions, such as eastern Europe, the intervention of multilateral international financial institutions (IFIs) is often essential if a project is to go ahead.

Competition for orders can be severe. It is not unusual to find dozens of companies pre-qualifying for the more attractive orders. The EU's Tacis programme for the former Soviet Union received more than 200 requests to pre-qualify for one military conversion contract.

Project cycles may be long and even having the guarantee of World Bank or EU financing does not ensure that the contract will be trouble free. But the rewards may be substantial. World Bank-financed orders totalling $607m went to UK exporters in 1992 and in 1993 the figure rose to $727m.

The World Bank says it finances more than 200 projects every year, leading to the award of some 30,000 contracts. About 70 per cent of these are for equipment and other capital goods. Contracts for dams, power networks and other big ticket contracts make headlines, but a high proportion of multilateral financing backs much smaller orders. According to the World Bank typical contracts secured in early 1994 by UK companies were ASC, which has a $12.95m order for grain handling equipment for China, and Telspec, whose $5.99m contract is to supply loop carrier equipment to the Slovak Republic.

In regions such as Africa, accessing multilateral-funded contracts is often the only way to do business. "Most of our sub-Saharan business is based on aid," a UK exporter says. His company employs specialist teams to monitor aid-related business opportunities across the globe. "Such is the range of aid-related lending that many companies either focus on just one or several related countries where they can build up specialist knowledge.

For SMEs and even multinationals, such approaches may not prove practical. Support from government to help identify opportunities is available to most exporters. The UK's Department of Trade & Industry (DTI), for example, provides specialist advice through its World Aid Section (WAS), which receives some 20,000 telephone enquiries and 3,000 company visits annually. The WAS helps to target markets and sectors for UK exporters unsure of what is on offer. It holds the details of more than 5,000 projects on its files, published through the DTI's Export Intelligence Service.

For a company seeking to tap multilateral financing for the first time, the initial priority is to learn more about the multilateral's operations and business practices.

Bidding for multilateral finance work can be a protracted process. One exporter, who has secured a $1.6m supply deal in south-east Asia financed by the ADB, sums up a wider view: while he is pleased with the business, there are frustrations. "It takes a long time for the bureaucratic wheels to turn," he says.

Local contacts are essential. Having identified that international financing is available for a project – often through an advance tender notice published by the World Bank, ADB or other agency in their own or commercial publications – a company should seek out the relevant implementing agency. WAS officials suggest providing the buyer with product information and establishing contact with officials.

The World Bank's international competitive bidding (ICB) process is designed to allow local and international companies equal opportunities to bid. ICB sets out standard rules for bidding. These include regulations stipulating that documents must be written in English, Spanish or French.

A margin of preference must be given to local firms. Manufactured goods with a minimum of 20 per cent of domestic content are afforded a margin of preference equal to the applicable customs and import tariff, or 15 per cent of the cost, insurance and freight price of the imported goods by the competitor.

Contracts must be awarded to the lowest evaluated bid, although this may not be the cheapest.

WAS officials say it is crucial that firms price their bids competitively, comply precisely with all contractual specifications and pay special attention to security and deadline arrangements. This can prove expensive. ICB tenders issued by the European Bank for Reconstruction and Development (EBRD) specify security to accompany the bid of "not less than 2 per cent of the total bid amount in any freely convertible currency".

Increasing flows of financing from the World Bank, EBRD, the EU's Phare and Tacis technical assistance programmes means that eastern Europe is a substantial area for aid-related growth. This is critical in countries where mobilising other forms of export financing can prove highly problematic.

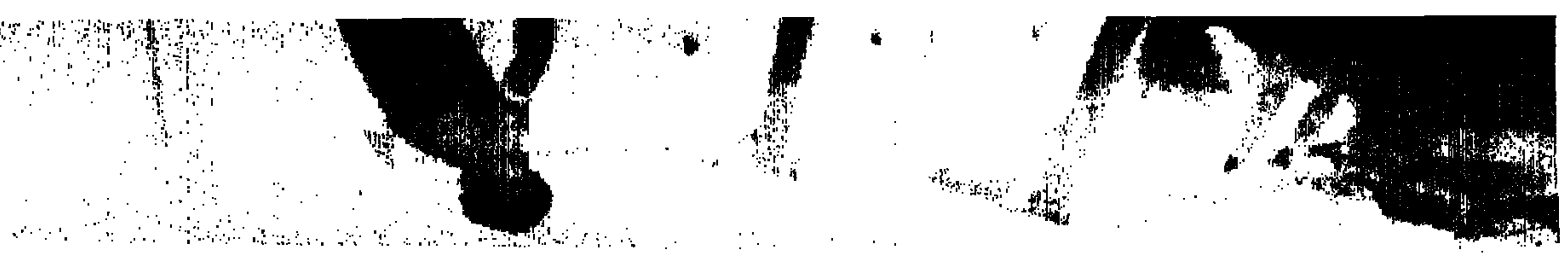
A pointer to the future is the EBRD's policy of signing agreements with bilateral agencies and banks to back export-related projects. To assist private sector buyers, the London-based bank has recently signed agreements with the Export-Import Bank of Japan, Mexico's Banco Nacional de Comercio Exterior (Bancomext) and the Austrian government.

These accords give EBRD backing to export credits, insurance and guarantees and investment-related financing - helping banks and export credit agencies to increase their funding capacity in difficult markets.

The EBRD has also established a $10m trade facility for Macedonia, guaranteeing designated correspondent banks of the Skopje-based Komercijalna Banka against non-payment of unconfirmed letters of credit.

The facility is intended to increase commercial trade finance flows to a "difficult market". It marks the recognition that in many parts of the world IFI support is essential if contracts of all sizes are to be signed – and that the development finance institutions and their clients can no longer live by prestige projects alone.

Additional research by Kevin Godier



SHORT-TERM INSURANCE

Exporters find more on offer

Paul Melly looks at the variety of cover available for both commercial risks and so-called "political" risks

The market for credit or political risk insurance to protect trading income from payment losses overseas is changing. The choice of underwriters ready to take on export risk is wider than ever, even if their appetite is limited by a shortage of capacity in the reinsurance market.

The underwriters – licking their wounds from the Lloyd's demise and European recession – may feel more gloomy. This, in some cases, has led to premium rises.

But for exporters, who find difficulty obtaining bank finance without insurance policies, a wide variety of insurers offer varied forms of cover against commercial business risks and so-called "political" problems such as war, nationalisation or a shortage of hard currency in the buying country (transfer risk).

Lloyd's has focused on political risk business since restrictions were introduced on trade credit risks in the 1920s after a Lloyd's underwriter, which had provided financial guarantees, experienced heavy losses.

However, in response to the worldwide trend towards privatisation which is gradually transforming many traditional sovereign "political" risks into purely commercial ones, Lloyd's is gearing itself up to becoming a significant source of trade credit risk underwriting.

Liberalisation of the European market has spawned a host of new insurers and spurred old established ones to become more flexible and move into new areas.

The port of Rangoon: Burma is one of the "difficult" risks NCM, the leading British insurer, will handle *David Hayes*

In many cases, the exporter will find several different companies are willing to offer cover, according to Nigel Bovingdon, managing director of the Credit Insurance Association (CIA), a leading broker.

Operators may have certain specialist niche skills. But several major factors may influence the exporter's choice of underwriter and, conversely, the underwriter's selection of exporters.

Is cover needed for credit risks or political risks, or both? Does the exporter need cover for just a few selected deals or a continuing flow of business? Does the exporter want the freedom to decide how much to sell to customers or does he want to rely on an insurer to set maximum credit limits on the amount of exposure he may have towards each customer abroad?

In such a complex market, it is often easier for the exporter to rely on the advice of a broker, who will analyse his particular trading needs and shop around to find the most suitable underwriters.

NCM Credit Insurance – before privatisation the short-term arm of the Export Credits Guarantee Department (ECGD) – is the market leader in the UK in terms of insured turnover and is able, along with its main UK competitor, Trade Indemnity, to handle companies of any size.

NCM normally covers a broad package of business, written under an annual policy and it is usually able to cover a significant amount of business in "difficult" countries in the developing world, provided an exporter can balance these risks with an amount of export sales to more stable and prosperous markets in Europe, North America or south-east Asia.

NCM has underwriters specialising in particular countries, an approach that contrasts with its main rival Trade Indemnity, where the underwriters specialise in industry sectors and each looks after a portfolio of export clients. A TI customer deals with the same underwriter for all aspects of the underwriting process.

Like NCM, TI offers "whole turnover cover", with a policy covering a spread of business over the course of a year and it, too, offers a limits service. It is keen to cater for large companies, though is prepared to make its policies available to smaller clients – reducing the size of its minimum cover to £10,000 per policy from £25,000 earlier this year.

A third operator in this vein, offering whole turnover cover and a limits service, is Namur Assurances du Credit. This Belgian group has just been taken over by the German insurance giant Gerling. Together, they have a network of local underwriting offshoots that will soon cover most of the European Union. In Britain, it is Namur that will continue to provide the group's credit insurance service.

Namur, NCM and TI can all supplement protection against normal commercial problems with political risk cover.

They could soon face increased competition from France's Coface, which has expanded its operations in Britain after concentrating at first on companies with a French connection. In France, Coface underwrites commercial risks on a private basis, while acting on behalf of the government to cover most political business. In the UK, it has made private political risk arrangements so that it can offer a full service to exporters.

Germany's Hermes is also seeking to establish a significant niche in the UK market.

The US has emerged as a valuable source of extra export insurance capacity, through Citicorp International Trade Indemnity, American International Group and, recently, Foreign Credit Insurance Association of America (FCIA), owned by the Great American Insurance Company, which formerly acted as managing underwriter for the Export-Import Bank of the US. When this association ended, acting on behalf of Great American, FCIA began underwriting on a private sector basis for US export business. Since last year it has been taking on European export clients as well.

Another US-backed newcomer is TUA, which writes both whole turnover and single risks on behalf of Reliance Insurance Company of the US.

Among UK insurers, Sun Alliance covers one-off risks and some continuous export turnover, particularly "key account" cover of an exporter's main buyers. Commercial Union is a mainstream political risk underwriter, which can provide credit insurance policies designed to cope with certain specialist business risks.

Few private sector underwriters are able to match the medium-term cover provided by ECGD and other national export credit agencies for exporters of capital goods. One that does is Exporters Insurance Company, which began its operations in 1990 and will consider risks of up to 15 years. It is a mutual insurer, and to qualify for cover, exporters must first become members.

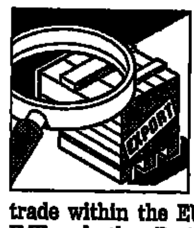
This is expensive, but for large exporters requiring specialist cover it can be worthwhile, especially because EIC will often cover deals on much more relaxed payment terms than those demanded by national export credit agencies.

Further expansion: downtown Seoul. South Korea wants to join the OECD by 1996

THE OECD

A platform for policy

While it is not a trade policeman, Jon Marks finds that the Paris-based organisation is able to exert considerable influence over the way exporters do business



The General Agreement on Tariffs and Trade makes rules regulating global trade. The European Commission intervenes to remove distortions to trade within the EU's single market. The IMF and other Bretton Woods institutions provide economic policy frameworks and financing flows. But in the universe inhabited by multilateral institutions the role of the Organisation for Economic Co-operation and Development is less clear.

Since its foundation in 1960, the Paris-based organisation has provided a talking shop and platform for industrialised nations to recommend policy measures for enactment by its 25 member states. The OECD's powers to enforce policy are much weaker than those of other multilaterals. "Members agree to play by the rules, but it does not mean becoming a trade policeman," an official in Paris says.

Even so, the OECD may still exert considerable influence over the way that exporters do business – and in some cases it may intervene directly in a deal. To promote a "level playing field" in international trade, the OECD has taken a lead in curbing the use of subsidies and controlling the use of export credits, which it regulates through the consensus rate.

It has sought to influence policy in areas from competition policy to criminal activity, and could expand its influence into other trade-related activities, such as the provision of export credit insurance.

The OECD exerts its influence through the application of "peer pressure" on each of its 22 member states, who are urged to follow its recommendations, even if they are not obliged to enact them as law.

In April, Mexico became the first new member for more than two decades. Further expansion will follow, changing the look of the OECD.

On 8 June, the OECD's annual ministerial meeting approved the start of negotiations on membership with four central European "partners in transition" – the Czech Republic, Hungary, Poland and Slovakia – and with South Korea, one of the group the OECD calls DNMEs or "dynamic non-members economies".

Seoul wants to join by 1996, the year when talks with the central Europeans may open. In Latin America, Mexico may be followed by three other DNMEs: Argentina, Chile and Brazil.

The OECD has a new co-operation agreement with the Russian Federation and is committed to building closer links with China. This is essential if the OECD is to reflect the economic realities of the next decade – and to bring Beijing into the OECD fold.

China's attraction to exporters, its capacity to absorb credit and insistence on obtaining the cheapest possible interest rate means that the most notifications of the unfair use of aid funding and application of sub-consensus export credits have been received for contracts there.

The use of subsidised credits has been monitored, since the OECD's ministerial meeting in 1991, by a committee based in Paris. The "Helsinki rules" committee aims to ensure that aid finance is only offered on the basis of developmental criteria, rather than national interest.

"Only a small part of official cover and development aid for projects comes under scrutiny, but there is some business where you meet it every day," says to an official working with the Helsinki rules. This is especially the case for telecommunications, power and other projects which may be financed from alternative commercial sources.

The Helsinki rules apply to financing of more than two years for all contracts, except military and agricultural deals. The OECD Helsinki group meets 11 times a year, when governments present potentially aid-funded projects for consideration and hear complaints against competitors whom suppliers say are using subsidised credits to obtain unfair advantage.

"We are building up a history of cases and we have the feeling that project promoters are getting a better understanding of the procedures," a Helsinki committee official says. "Either governments know the financing will not pass, so they do not even propose it, or they know the project is good and feel secure enough to present it to the committee".

There are several grey areas, however. "An application to fund a telecommunications project in the capital could turn out to be very different from an application for similar work in a rural area," the official says.

To iron out other forms of distortions to international trade, the OECD's competition law and policy trade committees have been working on issues such as anti-dumping. Other committees are examining criminal activity.

There are plans to introduce measures to control money laundering worldwide by 1999. "Our goal is that all countries with significant financial centres should implement our recommendations in the next five years," John Gieve, under-secretary at the UK treasury and chairman of the OECD's financial action task force on money laundering (FATF), said in June this year.

Bribery in international business transactions is the next target. The OECD has produced a recommendation on bribery which, it says, "is the first multilateral agreement among governments to combat bribery of foreign officials".

Recommendations include making payments to foreign officials illegal (but not to private business people) and removing their tax deductible status, says Mark Plieth, the Swiss official chairing the working group. The new OECD anti-bribery code will draw on the FATF's money-laundering experience.

The OECD could play a new role in other areas of trade policy. One is the global harmonising of levels of insurance cover provided by export credit agencies (ECAs). There is a long way to go before European, North American and Asian practice comes together to provide a level playing field for ECA cover.

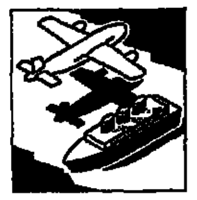
In the pipeline is a ground-breaking recommendation on exports by shipbuilders. For the first time this would introduce binding arbitration and damages in commercial procedures between states, as well as for companies.

The potential for the OECD to become more than just a rich nation's club has given impetus to the competition to appoint a new secretary-general for the end of September. Whoever emerges from the four candidates, among them the incumbent, Jean-Claude Paye, the decision, in keeping with OECD conventions, must be reached by consensus.

Joining the club: In April Mexico became the first new member for more than two decades

FT EXPORTER 8

Just part of the picture: deals such as Skoda's mask other successes in a range of products Reuter



STRATEGY: industrial reform, global sourcing of car components and technology transfer arrangements demand a variety of approaches to exporting

CZECH MANUFACTURERS

Attempting to take on the west

Helen Mingay examines the way the emphasis on pre-war excellence is having marked success in attracting international business

Czech companies are entering the modern world of marketing by reverting to their pre-communist past.

The Sellier Bellot Munitions Company, which has reverted to its pre-war name, is advertising for a foreign partner, while the country's most popular beer, Staropramen, is relying on its 1842 pedigree and name, which roughly translated means "from the ancient well".

As British beer drinkers adopt continental lager drinking habits, Bass is expecting its Czech connection will bring in the punters. Bass Breweries has bought a 34 *per cent stake in Prague Breweries* and the company plans to introduce Staropramen to the British market next year. The beer is already selling in Sweden *and* Germany.

Prague Breweries is the first leading Czech brewer to bring in an international partner, although other Czech brands are already making an impact on the western markets. Last year Germany alone imported half a million hectolitres of *Czech lager*. Guinness won the contract to market the Pilsner Urquell beer in the US and UK, while Sainsbury has a contract to brew its "own-brand" with *a Czech brewery*.

The strategy of stressing a reversion to pre-war quality seems to be having some success. Like other central European countries of Hungary and Poland, the Czech Republic has registered a remarkable increase in exports to the west, a process which began immediately after the velvet revolution and was intensified by the mass privatisation programme.

The division of Czechoslovakia, formally enacted on 1 January last year, slowed the march of Czech exports, as many companies were forced to restructure their production, causing interruptions to supplies for western markets.

Western importers now report that this period of dislocation is well behind them and that supplies are coming in smoothly.

With the demise of communism, the larger Czech companies tended to recruit *officials from the communist foreign* trade companies, which had been responsible for exports. Other officials set up export/import companies and agencies.

The large headline deals such as those involving car manufacturer Skoda and in the beer industry only form part of the picture.

The Czech republic has always exported a wide range of engineering products, and has a reputation for excellence in speci*alised items such* as hunting guns and gliders.

Many of these smaller companies also continued marketing through their well established agencies in the west, with little change from the communist era. In the UK, for example, the Vitrea company continues to market Czech glassware, while the Exico company continues to deal in *shoes, toys* and leather goods and electric motors.

"We still have the majority of Slovak factories, as well as *Czech products," says* M. Sebek, managing director of Exico. "There has been little change from our point of view since the communist era," he adds.

However, Exico's sales and marketing operations are now in the hands of a western partner. Many other companies, such as *the Sellier Bellot Munitions Company*, can be found advertising for a foreign partner which would be likely to take over export *sales*.

Volkswagen's investment in Skoda has led to a fully-fledged advertising campaign in the west. The campaign aims at a rehabilitation of the car to release it from its former communist image and a revamping of the marketing effort in separate companies under the VW wing.

Sales to the UK are showing a constant improvement, registering a 177 per cent growth at 5,000 cars sold, compared to the *first five months of last year.*

A company spokesman admits that these figures are inflated, however, as deliveries were interrupted last year as the Czech factory adapted to new conditions prevailing following the division of Czechoslovakia.

The sales effort concentrates attention on the benefits of "a lot of car for your money", adding somewhat less complimentarily that 550 improvements have been *made to the model since* the VW investment.

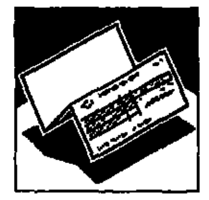
The marketing strategy has had to find a delicate balance between the relatively cheap price of the models and the fact that Skoda is now a car matching up to contemporary standards.

"It is not bristling with the latest technology, but it is a fairly modern car," says John Edwards of Skoda Automobile UK.

"Historically, the Skoda has been compared *to the Lada from* Russia. We do not like to be compared with the Lada as now they are two very different cars," he adds.

The price advantage, *primarily* generated by low wages, will continue to be the best selling point for the Czechs. But the remarkable reorientation of exports to the west in such a short space of time vindicates their emphasis on pre-war excellence.

FT EXPORTER 17



GETTING PAID: the private insurance market, short-term credit insurance, multilateral aid programmes and EU initiatives all help exporters secure payment

Lloyd's problems have constrained the private market's capacity to insure Trevor Humphries

PRIVATE MARKET EXPORT CREDIT INSURANCE

Stepping into the breach

Jon Marks finds that private insurers can facilitate exports in difficult markets where standard cover is often unavailable

It can be costly and often it is not available when it could help most. But for companies faced with the need to secure their ex*port orders against* the risks of a customer not paying, the private insurance market should not be ruled out as a means of facilitating exports.

Private insurers cover political and commercial risk in difficult markets. An attraction of private political risk cover is that – by basing its risk assessment on the intrinsic characteristics of individual deals – it may be used when the standard export credit agency (ECA) cover is not available.

ECAs and banks whose exposure limits and risk ratings are largely based on perceptions of country risk, may be constrained by macro-economic or wider political considerations. "Unlike traditional, government-backed business, the market brings with it commercial rules, helping to rationalise the market," says Louis Habib-Deloncle, head of the recently created Paris insurer Unistrat Assurances and founder of the Paris Pool of political risk *insurers*.

However, given the risks involved, private insurance may often be out of the question outside the *OECD and official* cover continues to dominate.

Problems at Lloyd's and wider problems faced by global insurance markets mean the private market's capacity to insure deals is more constrained than it was in the 1980s. The private market is mostly short-term and can cover contracts of up *to $30-40m. For confiscation cover*, deals of up to $150m could be insured. Most deals are much smaller.

But if the deal is right, *the private market* may insure risks which ECAs and banks usually avoid. This is reflected in the pattern of claims, says Kit Brownlees, managing director of political risk brokers Investment Insurance International (III), part of the Bain Hogg Clarkson group. The private market has been little affected by the Russian debt crisis, which has damaged ECAs and other creditors, because Lloyd's and other underwriters never took up much *Russia risk*.

Cuba, however, was a market that most ECAs would not touch, but was open for private insurance of state-guaranteed letters of credit (l/cs) until Havana decided to stop making repayments in the late-1980s. Mr Brownlees believes Cuba represents the worst loss experienced by the market. In other cases, the private market has stepped in when ECAs have gone off-cover and banks have mainly reached their country ceilings.

This was the case for Iran in 1992-93, when high profit margins made private insurance a valid option. The private market had capacity because Tehran continued to honour all its l/cs and ECAs had taken up most previous business. Iran's subsequent debt crisis has left private *insurers*, as well as the ECAs, forfaiters and other trade financiers who rushed in before it, confronting losses.

Much private market business involves countertrade and other commodity-related business. "In these deals we are covering performance risk, not country risk like an ECA would do," Mr Brownlees says. In Zambia, for example, ECA cover is highly constrained but private insurance is available for the supply of equipment to Zambia Consolidated Copper Mines (ZCCM), backing sales against payments linked to copper exports.

Working within the Lloyd's of London system, III, has the largest share of the private political risk broking market, followed by Unistrat and American *Insurance* Group (AIG). Others underwriting political risk business include The People's Insurance Company, based in Singapore, and the Bermuda-based Exporters Insurance Company (EIC).

AIG is developing its international reach. In France, analysts say its excess *loss policies and other products* are taking growing market share.

EIC is among several newcomers to the business. "The growth of *newcomers* like EIC is providing a whole new capacity," Mr Brownlees says. Increasing capacity is essential if private political risk insurance is to become relevant to more exporters. "Customers increasingly understand how to use the market, but they see the capacity is too small," Mr Habib-Deloncle says.

Lloyd's problems mean that overall levels of private insurance have markedly reduced since the 1980s. Other insurers *have also found themselves confronted* with problems leading to a reorganisation in the market in recent years.

The private sector is more of a complement than competition to ECAs, according to Xavier Denecker, director of the French credit insurer Coface responsible for communications.

In France a series of reforms and the introduction of new policies has increased the flexibility of Coface which is now *majority privately-owned*.

"Public sector insurers must show they are working in the national interest and keep within strict limits *on country risk*," Mr Denecker says. "Private insurers can guarantee all operations and here is their real niche".

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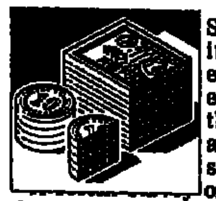
SMALL BUSINESSES IN THE UK

Trust is often the only insurance

Risk finance and other financial products are often too costly for smaller companies. **Mark Ford** finds that these companies frequently look for alternative ways round the problem



Small firms have been instrumental in the effort to boost UK exports – but it seems that they are often financing the risks themselves.

[illegible] of UK exporters found that approximately half do not have a foreign exchange strategy to protect the value of receivables and a similar proportion do not use credit insurance. These findings suggest that owners or financial decision-makers in small firms choose to ignore what appear to be useful financial products for exporters.

However, several reasons are put forward by those who own or work with small exporting firms to explain why these seemingly useful financial products, promoted by banks and financial institutions, might be unpopular with small firms.

"We have to take a calculated credit risk with overseas customers since any more finance charges or costs would punish profits drastically," says Durgesh Patak, head of accounts at Birmingham-based Perfos Tooling, which employs 25 people and exports about £1m worth of engineering components each year.

"We feel that the banks' export services are geared more towards large multinationals rather than the small scale engineering company which, after all, makes the components that build the British manufacturing economy."

Mr Patak stresses that his firm's bank generally provides an excellent service – but, for Perfos to seek more overseas customers, financial products at the right price must be available.

The leading clearing banks, predominant in the market for the provision of finance for UK small firms, claim to offer an excellent range of products to facilitate international trade.

Yet, according to the survey – which was carried out for the Institute of Export and NCM Credit Insurance by the London-based Bank Relationship Consultancy (BRC) – many firms still say that their bank gives them no advice on trade finance. Staff restructuring within the clearing banks has led to a growing number of travelling advisers in many fields, including international trade finance. But however good the product is, if it is too expensive – or if it is perceived to be too expensive – the customer will not buy it.

According to Joan Rundell, an independent export consultant who works with many small exporters in the West Midlands, export credit insurance policies offered directly by the insurers themselves can be inappropriately expensive. She suggests that an alternative, but still proportionately expensive, way for small firms to finance international trade is through products such as Barclays' Small Exports Scheme. In this scheme, firms can obtain loan finance and take out credit insurance which is covered under the umbrella of the bank's own credit insurance.

Fears about the length of time exporters have to wait for payment are compounded in the case of sales to some less developed countries. Goods invoiced in sterling might, because of currency shortages, be paid late and in alternative currencies. Mrs Rundell cites cases of UK firms receiving only 75 per cent of the face value of their invoice.

So what options are open to small firms who face currency, political or credit risk? The BRC survey suggests that most firms still finance export risks from working capital or through overdrafts which are not designed for or well suited to this purpose.

The BRC survey finds an increasing number of UK companies are prepared to offer foreign customers prices in their own currency instead of in sterling – a common reason for foreign buyers rejecting UK suppliers.

From the small firm's perspective this would seem to be a logical strategy – if institutions are unwilling to insure a risk then it might as well be converted into a competitive advantage by offering customers the option of purchasing in their own currency.

A paucity of statistics on small firms' export performance makes assessing the level of their international market penetration problematic. However, the general feeling among small firms in the West Midlands is that manufacturing firms, including consumer goods, producers of pottery, jewellery and sundry giftware products, are improving their performance.

Mike Turner, overseas trade manager at Birmingham Chamber of Commerce, suggests that chamber members – most of whom are small manufacturing firms – have been reporting increasing exports for some time now and this year the improvement is gathering pace.

A chamber survey revealed that, in the first quarter of this year, 33 per cent of firms reported export orders up (30 per cent did so in December 1993), 49 per cent (41 per cent in December 1993) reported export orders the same and, significantly, only 18 per cent (30 per cent in December 1993) of members reported falling orders.

West Midlands firms are keen to explore new and more distant markets. "There is an upward trend in exports, especially in far eastern countries and particularly south-east Asia. Japan is emerging as a potential market and sales to the Middle East remain steady following the Gulf War," says Mr Turner.

"Of great interest to our members is South Africa, where we are organising a trade mission of 28 people, and in October we will be targeting Thailand, where we feel the market is about to take off."

Small firms have clearly been instrumental in industry's effort to export the UK out of recession. Moreover, it seems that they have often both financed and taken the risks inherent in selling to overseas markets.

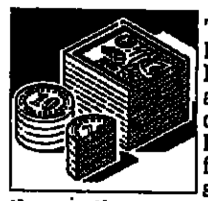
Even if small exporters do use financial products – which for smaller businesses are only available from a handful of banks – these products are most often proportionately more expensive for small than for large exporters.

Instead of insuring against a business relationship turning sour by using products such as credit insurance, the small exporter, it seems, is more likely to build a sustainable business relationship with overseas customers based on trust and good communications.

THE ITALIAN EXPERIENCE

Expectations confounded

In spite of its recent strategy of overseas expansion Marzotto, the clothing and textiles group, has experienced a severe cutback in profits. **Andrew Hill** talks to its chairman



To get to work, Pietro Marzotto, chairman of Italy's largest clothing and textile group, drives a large silver Lexus saloon, rather fast, through the streets of Valdagno, the small northern Italian town where Marzotto has its headquarters. He likes to show visitors how his family put Valdagno on the map, and in the process built not just an international company, but a social infrastructure of schools and sports clubs in the town.

But Mr Marzotto is less sentimental when it comes to talking about the group itself, and figures for the past 10 years show why he cannot afford to be anything other than ruthless in business.

In that time, he has seen Marzotto's net profits grow from L10.1bn (£4.14m) in 1984 to L50.3bn in 1989, only for recession to cut the profit back to L10.2bn last year. The main difference between now and 1984 is that turnover reaches nearly L2,000bn annually, compared with L400bn 10 years ago.

The really irritating part for Mr Marzotto is that this setback has come after a concerted strategy of expanding internationally, through acquisition and export, and in spite of the 1992 devaluation of the lira. More galling still for the charismatic chairman (although the whole world market for Marzotto products was comparatively depressed in 1993) is that one of the main reasons for the 74 per cent decline in profits was the poor performance of the group's Italian clothing activities, particularly in classic menswear.

Of total turnover last year, L1,205bn – nearly 62 per cent – came from sales outside Italy. But overall Italian sales fell by 16 per cent, and in the clothing sector by 22.7 per cent. The only element which saved Marzotto from an even worse year was the performance of Hugo Boss, Germany's biggest menswear designer, which recorded a 73 per cent increase in its 1993 profits. Marzotto owns nearly 64 per cent of the voting stock of the German company.

The 1992 and 1993 results were a serious disappointment for many analysts of the Italian market, who had expected Marzotto – as a big exporter in an internationally competitive sector of Italian business – to lead the way for all Italian exporters on the back of the currency devaluation.

But the international downturn confounded those expectations, particularly in the clothing sector, which accounts for 65 per cent of group sales. As the group points out in its 1993 report and accounts, "in countries (such as the US and UK) which experienced growth in GDP, consumption did not increase notably; while in those where production slipped, the decrease in consumption was several times greater than the reduction in income". The group picked out Italy, Germany, France and Spain as particularly difficult markets in 1993.

There was at least some benefit from the lira devaluation in the group's other sectors of cloth, threads and yarns. Thread and yarn sales outside Italy increased by 32 per cent, more than offsetting a slight fall in Italian turnover, and cloth sales increased by the same amount abroad, against a decrease of 12 per cent on the home market.

Not surprisingly, the experience of 1992 and 1993 has only made Mr Marzotto more determined to reduce the share of the Italian market in Marzotto's results. He sees Italian sales coming down to 35 per cent of the group total in 1994 and to 30 per cent by the end of the decade. "Italy will

Marzotto: 'a mentality more than a structure'

remain fundamentally firm, but the others will grow," he says.

According to Mr Marzotto the 1992 devaluation merely returned the Italian exporters to normal competitiveness, which had been lost during the difficult 1988-92 period when all Italian companies were fighting to keep costs down. Now at least there is a basis on which to start growing exports again, and the process has already started. Mr Marzotto confirms that export orders for 1994's winter season of clothing are up strongly, and he is even more confident about the company's ability to increase its share of the export market in the commodity cloth and thread sectors.

That said, Marzotto's expansion by acquisition means it is increasingly becoming difficult to talk about "exports", because Marzotto products are often manufactured outside Italy. Of the group's 10,131 employees, more than three-quarters are still in Italy, but during 1993 it was the home country which bore the brunt of job cuts (accounting for 923 out of the 1,260 jobs lost), and that process seems likely to continue.

In spite of his family's past philanthropy, Mr Marzotto is hard-nosed about the group's duty to its Italian employees. "We still have a responsibility towards Italy, but we have to look at costs," he says. He points out that in the Czech republic, where Marzotto is buying a yarn manufacturer, productivity may be lower but labour costs are a tenth of those in Italy, while in Tunisia, where the group has another thread factory, they are 8 per cent of Italian costs. It comes as little surprise to learn that Hugo Boss's comparatively strong growth is partly based on a gradual move of its remaining German factories to the east.

Does that mean that the days of the "Made in Italy" marketing strategy – promoting Italian products for quality and design – may be numbered? "For certain markets this marketing policy is still valid," says Mr Marzotto, "but we think it's our label which indicates quality now."

The next two years – as its export markets emerge from recession – are likely to provide the real answer to the question of whether Marzotto has benefited from the lira devaluation and its heavy emphasis on expansion abroad. Mr Marzotto is adamant that the aims of the company are now firmly embedded in the group's management structure. "It's a mentality more than a structure: looking more towards the [rest of] the world. It's a mentality which affects top management and which is affecting all the levels of the group," he says.

One thing is certain, and that is that Pietro Marzotto himself is not constrained by any of the old chauvinistic concerns which kept markets and minds closed. Asked why he chooses to drive a luxury Japanese car, rather than a traditional Italian saloon, such as the ubiquitous Lancia, he says simply: "We don't make anything to compare with this."

Deutschmarks to Dieter?
Lire to Florence?

Downgradings

HIGH TECH EXPORTS

Focus of trade constraints shifts

While the demise of Comecon has led to an easing of controls, Alan Spence finds that they have not disappeared altogether

The sale of high technology equipment to sensitive destinations has become easier since the collapse of communism, but strict controls remain. The Paris-based organisation Co-com – the co-ordinating committee on multilateral export controls – went into voluntary retirement on March 30 this year after 47 years of curbing western military and high technology exports to communist countries.

Members, comprising all the NATO allies except for Iceland, and including Australia and Japan, will retain the current slate of banned items, although enforcement will rely on national discretion.

The political and economic liberalisation within former Comecon countries has reduced the western governments' need to control the sale to the region of "dual-use" technology – goods capable of, but not specially designed for, military purposes.

But the collapse of communism in eastern Europe and the former Soviet Union does not mean that all restraints have disappeared. The focus of residual controls has shifted to developing countries, especially, for example, North Korea and Iran.

Reductions in trade constraints are reflected in the diminishing volumes of export licences issued by the UK's Export Control Organisation (ECO), a unit within the Department of Trade and Industry (DTI). About 21,000 licences were approved by ECO in 1993, compared to about 100,000 in 1988. And the ECO estimates provisioning of about 18,000-19,000 licences for 1994.

Cocom's final year was marked by the easing of restrictions, especially for exporters of telecommunications equipment, computers and precision machine tools. UK computer manufacturer ICL reports £60m worth of business in eastern Europe for 1993, a figure "substantially up from the previous year", says a company spokesperson.

Restrictions ease: computer operators at the Commercial Bank for Innovations, Moscow *Tony Andrews*

Cocom began to reduce a long list of proscribed items in 1990, while also removing fast-reforming countries such as Hungary, Poland and Czechoslovakia from sensitive destination categories.

On the day of Cocom's demise, the US Commerce Department removed licensing requirements on almost all low level telecommunications equipment and computers to every ex-communist nation except North Korea.

Constraints on UK exporters were further relaxed in May with an amendment to the 1992 Export of Goods (Control) Order (EGCO). "I expect a one-third reduction in the number of licence applications for industrial goods alone," said Richard Needham, Britain's trade minister in response to the amendment.

ECO annual licensing for industrial "dual-use" exports has fallen from about 60,000 in the late 1980s to below 10,000 at present. Exports of weapons of mass destruction (WMDs) and associated components are still covered by three principal non-proliferation controls: the 1968 Nuclear non-Proliferation Treaty; the 1987 Missile Technology Control Regime; and the Australia Group, which deals with chemical and biological warfare weaponry and components.

Under UK legislation passed in 1939 and amended in 1990, the legal onus lies with the exporter to apply for a licence, when selling military equipment and sophisticated dual-use technology overseas. Few cases are refused in practice. Last year 300 applications were turned down. Successful UK applications for military export licences average 12,000 per year, although the May amendments to EGCO have increased restraints upon sales of armoured vehicles, military components, digital controllers and testing equipment.

The growth area in control is developing countries where 41 destinations are now subject to special licensing procedures.

Sanctions agreed by the UN Security Council include arms embargoes to Somalia and Liberia, and complete embargoes upon trade with Iraq, Haiti and Serbia-Montenegro. Certain goods are additionally prohibited from Libya and Angola.

UK compliance procedures were upgraded in 1990 after difficulties with Libyan exports. An "end-use", or "catch-all" control was introduced, forcing would-be exporters to make reasonable enquiries to allay any suspicions regarding use or destination.

This has been consolidated through the launch in March of the Export Training Initiative – a package of materials for companies to promote organisational awareness – and the publication of a Code of Practice for Enforcement.

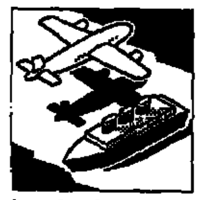
More than 200 annual compliance visits are made by ECO to UK companies to reinforce the licensing process. These are mainly to companies with Open Individual Export Licences which cover individual exporters for regular shipments over two and three years to specified destinations.

Further information is available from DTI's Export Control Organisation Enquiry Unit. Tel: +44 (0) 71 215 8079. Fax: +44 (0) 71 215 8564

GLOBAL SOURCING

The move towards global purchasing

Kevin Done looks at the way Ford's CDW-27 project is showing how many of the company's planned reforms can be implemented



This autumn Ford, the world's second largest carmaker is launching the US versions of its so-called CDW-27 world car programme, a $6bn project that has helped to lay the foundations for one of the most radical organisational shake-ups in the US car maker's 91-year history.

The programme has already spawned the Ford Mondeo large family car, which was launched in Europe in spring last year, and Ford is preparing to put the sister cars, the Ford Contour and the Mercury Mystique, on sale in north America.

The CDW-27 project has convinced the company that it is possible to design, develop and engineer a car in one region – in this case Europe – for manufacture in at least two regions – north America and Europe – for sale around the globe. It has given Ford the confidence to develop a bold strategy for restructuring its entire automotive operations – including the way that it deals with its components suppliers around the world.

It is merging its European and north American operations into a single operating unit, Ford Automotive Operations, with effect from next January. It is setting up five so-called global vehicle centres, one in Europe and four in the US, to break down the group's regional barriers. Each centre will have worldwide responsibility for the design, development and engineering of particular vehicle ranges.

The CDW-27 project, Ford's first successful world car programme, has prepared the way for the reorganisation and brought Ford for the first time to the global purchasing of components and systems.

Ford maintains that this will provide "economies of scale, world-class supplier productivity and cost levels, improved quality, faster time to market, better product innovation and enhanced supplier design involvement and support." It will also mean that it will be able to choose the best products to be offered worldwide in any particular category.

The CDW-27 project is showing how many of the planned reforms can be implemented. Versions of the Mondeo/Contour/Mystique will be assembled at Ford plants at Genk, Belgium, at Kansas City in the US. and at Cuautitlan, Mexico. For the Mondeo programme alone Ford is spending $2.5bn a year on components bought from outside suppliers.

According to Albert Caspers, Ford's new chairman for Europe, global purchasing means that the share taken by north American suppliers has jumped to 15 per cent for the European-built Mondeo compared with a share of only 1-2 per cent in Ford of Europe's traditional car programmes. "We have also brought many European suppliers to north America and some have made joint ventures in the US," he says. "The philosophy was to develop a part only once from one supplier for the world. This is the first project where we have done this."

Ford estimates that about $140m worth of components will be exported annually to north America from Europe with about $260m worth of components coming from north America to Europe as part of the Mondeo programme.

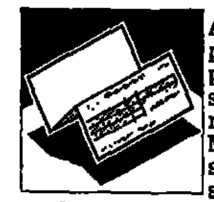
The development of an integrated, global supply base has resulted in a drastic reduction in the number of suppliers. The current US-built Ford Tempo/Mercury Topaz range has more than 700 suppliers – all in North America – whereas the successor Ford Contour/Mercury Mystique models will have only 227 suppliers, drawn from around the world.

Kerry Caliman, CDW-27 project manager for purchasing for Ford's north American automotive operations, says: "the more business you can source globally, using the same supplier for the same part for both North America and Europe, the more you'll benefit from economies of scale and focused quality control efforts".

CREDIT WATCH

Payment guarantees a step nearer

Jon Marks and Kevin Godier say an EBRD move to provide guarantees against non-payment by Macedonia is an important step for exporters trying to secure payment in difficult markets



A $10m trade facility provided by the European Bank for Reconstruction and Development (EBRD) for Macedonia marks a small, but potentially significant step forward for exporters trying to secure letter of credit (l/c) and other payments guarantees in difficult markets.

The EBRD facility provides guarantees against the non-payment of l/cs confirmed by four correspondent banks on the Skopje-based Komercijalna Banka: Deutsche Bank, Swiss Bank Corporation, Turkiye Garanti Bankasi and Citibank. L/cs are a standard trade instrument around the world, but can be hard to secure in economies with poor credit ratings, where banks are loth to build up even the most short-term exposure. "The reality, based on western risk perceptions, is that in countries like Macedonia many banks need at least 100 per cent cash collateral for l/cs," says David Hexter, head of the EBRD's financial institutions group.

The EBRD, like other multilateral institutions, is not a natural alternative supplier of export credits. Only minimal amounts of this form of financing is available to more difficult markets – and after a period of debate over how best to stimulate trade flows. However, the general principle of trade facilitation allowing the EBRD to intervene in trade finance has been accepted, Mr Hexter says.

The EBRD guarantee makes confirmation a more attractive prospect for correspondent banks. It should help to build confidence in, and new contacts for financial institutions such as Komercijalna Banka, whose opportunities to develop trade are diminished by wider risk considerations. Similar facilities could follow in Russia and Belarus.

The EBRD trade facilitation project focuses on a key problem: how to build capacity to secure commercial deals in difficult markets. Even in countries with more established credit ratings, there may be limited capacity to provide the support needed to allow adequate flows of imports. It is often necessary to shop around to find a bank which will open an l/c, or to find a forfaiter or another specialist trade financier to facilitate a deal.

A good indicator of capacity and country risk perceptions is whether forfaiters are prepared to provide financing. Forfaiting is a specialised trade finance instrument. The forfaiter, usually a bank, buys the exporter's debt at a discount, providing cash up-front and reducing the exporter's risk to zero. To do this, the forfaiter must be attracted by the margins offered and see repayment prospects as a "good risk".

Usually, the longer the maturity (repayment period) the forfaiter is prepared to buy, the better the risk.

Banks and specialist trade finance houses, such as forfaiters, make the following country observations:

- **Colombia** is attractive to banks, who are increasingly prepared to confirm l/cs of over 360 days. Forfaiters will finance deals of up to three years.
- **Ecuador**: securing confirmation for even sight (immediate payment) l/cs is problematic until wider debt problems are overcome, but a few market specialists may back 180-day deals.
- **Venezuela**: the collapse of Banco Latino in January has reinforced bankers' caution about doing even short-term deals. These are mainly limited to the largest five banks and the best-known corporates. Forfaiters may provide up to one-year financing, but the market is cautious.

South-east Asia is another focus for the emerging markets boom, but trade financiers generally tend to be more cautious than the investment community and funding capacity may be limited.

- **Vietnam** continues to excite exporters but banks are less enthusiastic while payment and exchange delays of up to five months remain. An overhaul of the banking system is under way and Standard Chartered Bank already reports significant improvements in handling l/c business.
- **Laos**: smaller short-term deals are possible. Barclays Bank is among those opening Laotian Bank for Foreign Trade l/cs (up to 90 days) for consumer goods.
- **Cambodian** l/cs may be confirmed by specialists, with Asian banks taking a lead, but capacity to do deals is constrained.
- **India** continues to win praise from bankers for its economic reform and, while l/cs (usually sight drafts of up to 180 days) remain the norm for trade transactions, private importers are increasingly buying goods without l/cs.
- In the **Middle East and North Africa**, the increase in oil prices recorded in June has come too late to improve the outlook for the most indebted countries.
- **Iran** continues to arrange bilateral reschedulings of l/cs and insured debt with its leading creditors. Agreement has been reached on debt worth more than $6bn, usually following the pattern of a ground-breaking German rescheduling. Accords are expected soon with France and Italy.
- **Algeria** has agreed to reschedule its $14.5bn official debt with the Paris Club of creditor governments. This will provide an estimated $5.3bn debt relief in the year to May 1995. Substantial new funds from the IMF, World Bank, EU and other institutions, and FFr6bn in fresh export credits from France are in the pipeline.

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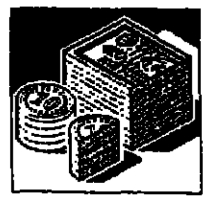

MARKET STUDIES: FT Exporter analyses credit issues, how the small UK exporter can penetrate foreign markets and profiles an Italian business

CREDIT RATINGS

Downgradings can prove fatal

While ratings agencies are not as influential in assessing risk for trade deals as they are in the capital markets, there are times when they are able to influence a deal, writes **Alan Spence** and **Jon Marks**

Exporters who need to assess trade finance risks face similar problems to potential investors in emerging markets.

Both are confronted with the need to know exactly how much should be paid for lending to countries where political and macroeconomic considerations have a strong influence over day-to-day commercial transactions. Both look to landmark deals to provide a benchmark for future lending rates. Both call on a variety of sources of information to help assess credit risk.

The leading US ratings agencies, Standard & Poors and Moody's Investor Service, are an influential guide for investment bankers.

They and other agencies are able to influence the pricing of trade deals – but not to the extent that their reputations in other sectors of the financial market would suggest.

However, this could change as exporters, banks and credit insurers seek to further refine their risk assessment techniques.

"For trade financiers, ratings agencies are a factor, but only a minor one," says the chief analyst of a leading London trade finance house. Generally "bankers go by their own experience and that of other bankers in this market", he adds.

For trade deals in eastern Europe and developing markets, many of the countries where trade financiers operate are not yet rated by the leading agencies. Some agencies, including IBCA, are trying to increase their ratings of sovereign risk in order to broaden the audience for ratings services.

There are three ways that ratings can have an effect on trade deals:

● When trade-related lending is rated, through a deal being financed by a commercial syndication. This is not all that common, but when applicable it does set the price.

J. P. Morgan Securities in New York has arranged a $110m export pre-financing facility to allow Altos Hornos de Mexico (AHMSA), a Mexican steel producer, to sell steel to a German buyer, Thyssen Handelsunion.

The deal, in which Thyssen pays for its steel directly to an agent for the borrower, allows AHMSA to refinance part of its debt and modernise production. The loan has been syndicated in two tranches with pricing set in relation to the NAIC 2 and BBB- rating set by one of the smaller agencies, Duff & Phelps.

● When a bond rating sets a benchmark.

The appearance of newcomers, such as Slovenia, in the bond market can have an effect as trade financiers digest their ratings when pricing deals. This becomes most relevant when the bond is priced at a cheaper rate than that which the trade market has set.

Among the established markets that are in line for new Standard & Poors and Moody's ratings is Pakistan. The ratings will be incorporated in banks' wider perceptions of Pakistani risk, but they will not have a direct effect on trade deals, according to bankers.

"Pakistan is already an established trade finance market with most banks doing short-term – where the terms are tough," the analyst says.

"A bond rating will only be part of a wider trend, especially as the ratings agencies do not affect a country's BIS weighting, which could change trade pricing," he adds.

● When a country is downgraded.

This is the time when ratings agencies can have the greatest effect on trade, as is well demonstrated by the problems facing Turkey, a major market.

The Turkish experience of risk downgradings by Moody's and S&P has been traumatic. The agencies first awarded investment grade ratings in 1992 as the Turkish treasury increasingly turned to bond issues to meet its sovereign borrowing requirements.

As early as spring 1993, S&P sent out warning signals of poor economic performance and Moody's followed in October by putting the country on "credit-watch". Downgradings from both agencies in mid-January then triggered a run on foreign exchange.

Although the downgrades apply to bonds, they have contributed significantly to a decline in market confidence. The January 1994 crisis has spread to the rest of the economy, plunging industry into recession from boom conditions in 1993. The lira has, since the beginning of 1994, devalued by more than 50 per cent.

Although by June stability was returning to domestic finances and an International Monetary Fund-led stabilisation programme is now in prospect, international confidence remains fragile.

In early June, George Dallas, head of S&P's sovereign ratings group, told a conference in Istanbul that it seemed unlikely that Turkey would be upgraded in the short-term – even though the country's fundamentally stong economy might restore ratings later.

Deterred by successive downgrades, the international markets have closed to fresh lending to Turkey. This includes standard trade deals and especially the sort of pre-export financing so favoured by Turkish banks in recent years.

Denied fresh inflows for refinancing or roll-overs, the banks have engaged in a race for lira liquidity in order to cover their foreign liabilities in one of the most open foreign exchange regimes in the world.

There remains a huge demand for foreign exchange to finance trade deals. In spite of the domestic switch to lira, demand for foreign exchange liquidity from Turkish banks remains substantial, as one Istanbul banker puts it, availability of credit, not the price, is the issue for instruments such as letters of credit (l/cs). Obtaining these depends on relationships, rather than the market.

From about 300-400 banks which participated in Turkish trade finance last year, only a core of about 40 are still active players. Forfaiting and factoring transactions have also dried up, as have leasing operations, notably when burdened by long-term fixed rates.

Banks are wary about taking on new Turkish risk. In some cases they are still attracted to the country's longer term potential – as was signalled when in late June the treasury negotiated what was seen as a competitive rate in the circumstances for a six-year Euroloan, valued at DM 400-450m for the Cayhiran thermal power station.

"Turkey is a big economy and some deals may continue to go ahead," says a European banker with a large portfolio of Turkish trade paper. "But we have stopped: we pulled back when we saw what Standard & Poors was saying."

The ratings agencies may be less influential in trade deals than in other markets. But when it comes to downgrades, their influence can be telling on the business environment.

OECD export credit rates

Minimum interest rates for officially supported export credits (%)

	Jun 15-Jul 14	May 15-Jun 14
Australian $	9.14	8.94
Austrian Sch	7.59	7.40
Belgian franc	8.20	8.40
Canadian $ (to 5 years)	8.81	8.42
Canadian $ (5 to 8+ yrs)	9.08	8.65
Canadian $ (over 8+ yrs)	9.30	8.93
Danish krone	7.90	7.40
Dutch guilder (to 5 yrs)	7.20	6.95
Dutch guilder (5 to 8+yrs)	7.70	7.45
Dutch guilder (over 8+yrs)	8.35	8.10
Ecu	7.57	7.24
Finnish markka	9.00	8.75
French franc	7.53	7.35
German mark	7.32	7.12
Irish punt	8.52	8.16
Italian lira	8.98	8.80
Japanese yen	4.20	4.20
New Zealand $	7.88	8.21
Norwegian krone	8.16	7.23
Spanish peseta	10.11	9.72
Swedish krona	9.18	8.92
Swiss franc	5.82	5.76
UK pound	9.38	8.51
US dollar (to 5 yrs)	7.34	6.99
US dollar (5 to 8+ yrs)	7.78	7.52
US dollar (over 8+ yrs)	8.01	7.80

Source: OECD

Forfaiting rates

	Period years	DM %	US$ %
AMERICAS			
Argentina	5	10⅝	11⅛
Brazil	5	*	*
Canada	7	7⅛	7$\frac{11}{16}$
Chile	5	8⅝	9⅛
Colombia	3	*	*
Mexico	5	10⅛	10$\frac{11}{16}$
Uruguay	1	*	*
US	7	7⅛	7$\frac{11}{16}$
Venezuela	1	*	*
EUROPE			
Austria	7	7⅛	7$\frac{11}{16}$
Belgium	7	7⅛	7$\frac{11}{16}$
Cyprus	5	7⅞	8$\frac{7}{16}$
Czech Republic	5	10⅝	11⅛
Denmark	5	7	7⅛
Finland	6	7	7⅛
France	7	7⅛	7$\frac{11}{16}$
Germany	7	7⅛	7$\frac{11}{16}$
Greece	3	8¼	8$\frac{13}{16}$
Hungary	5	9⅝	10⅛
Iceland	3	8¼	8$\frac{13}{16}$
Ireland	5	7⅛	7$\frac{11}{16}$
Italy	5	7⅛	7$\frac{11}{16}$
Malta	5	8⅜	8$\frac{15}{16}$
Netherlands	7	7⅛	7$\frac{11}{16}$
Norway	5	7	7⅛
Poland	5	11⅛	11$\frac{11}{16}$
Portugal	7	7$\frac{3}{16}$	7$\frac{13}{16}$
Romania	1	*	*
Slovakia	–	–	–
Slovenia	5	10⅛	10$\frac{11}{16}$
Spain	7	7⅛	7$\frac{11}{16}$
Sweden	5	7	7⅛
Switzerland	7	7⅛	7$\frac{11}{16}$
Turkey	–	–	–
UK	7	7⅛	7$\frac{11}{16}$
AFRICA			
Morocco	5	10⅝	11⅛
South Africa	3	9¼	9$\frac{13}{16}$
Tunisia	3	8¼	8$\frac{13}{16}$
Zimbabwe	1	*	*
ASIA & AUSTRALASIA			
Australia	5	7⅛	7$\frac{11}{16}$
China	5	8⅝	9⅛
Hong Kong	5	7⅝	8⅛
India	5	*	*
Indonesia	3	8¾	9⅛
Japan	7	7⅛	7$\frac{11}{16}$
Malaysia	5	7⅜	7$\frac{15}{16}$
Nepal	0.5	8	8¼
New Zealand	5	6⅞	7$\frac{7}{16}$
Pakistan	2	9⅜	9$\frac{15}{16}$
Singapore	7	7⅛	7$\frac{11}{16}$
South Korea	5	7⅜	7$\frac{15}{16}$
Sri Lanka	*	*	*
Taiwan	7	7⅛	7$\frac{11}{16}$
Thailand	5	8⅛	8$\frac{11}{16}$
Vietnam	5	*	*
MIDDLE EAST			
Bahrain	5	7⅞	8$\frac{7}{16}$
Egypt	5	*	*
Kuwait	5	7⅞	8$\frac{7}{16}$
Oman	5	7⅞	8$\frac{7}{16}$
Qatar	5	7⅞	8$\frac{7}{16}$
Saudi Arabia	5	*	*
UAE	5	7⅞	8$\frac{7}{16}$

LIBOR

	DM	US$
6 months	5	5¼
1 year	5¼	5$\frac{13}{16}$
2 years	5$\frac{13}{16}$	6½
3 years	6⅜	6$\frac{15}{16}$
4 years	6¾	7$\frac{1}{16}$
5 years	6$\frac{15}{16}$	7⅛

These indications are shown on a basis of discount to yield, assuming six monthly repayments. Three year transactions are calculated with an average life of 1¾ years, five-year arrangements with a life of 2¾ years. Indications apply only to immediately available business. Commitments up to six months call for a slight rate increase. The standard commitment fee is 0.1 per cent a month, but can vary according to the risk. * Subject to negotiation. – No information available.

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Export and credit collection survey

Country	Exchange Delays (months)	Collection Experience	Most liberal Suggested Terms	Country	Exchange Delays (months)	Collection Experience	Most liberal Suggested Terms
Australia	2	Good	OA	Mexico	3	Fair-good	SD
Brazil	4	Fair	ULC	New Zealand	2	Good-fair	30/SD
Canada	2	Good-fair	OA	Nigeria	4	Fair	ULC
Chile	3	Good-fair	SD	Oman	3	Good-fair	SD
Egypt	4	Fair-good	ULC	Pakistan	3	Fair-good	ULC
Ghana	3	Fair	SD	Philippines	3	Fair	ULC
Hong Kong	2	Good-fair	30/SD	Saudi Arabia	3	Fair	SD
India	3	Fair-good	SD	Singapore	2	Good-fair	30/SD
Indonesia	3	Fair-good	SD	South Africa	3	Good-fair	SD
Israel	3	Fair	ULC	Thailand	3	Good-fair	SD
Jamaica	3	Fair	ULC	Trinidad & Tobago	3	Fair-good	ULC
Japan	1	Good	60/SD	Turkey	3	Fair	ULC
Kenya	4	Fair-poor	ULC	UAE	3	Fair-good	SD
South Korea	3	Fair-good	SD	US	2	Good-fair	60/SD
Kuwait	2	Fair-good	SD	Venezuela	3	Fair-poor	ULC
Malaysia	3	Good-fair	SD	Vietnam	4	Mostly LC	ULC

Footnotes: 1. OA - open account; ULC - unconfirmed letter of credit; SD - sight draft; 30/SD - 30 days sight draft. 2. Exchange delays refer to the time taken from the due date for the importer to deposit local currency with the central bank or other authorising body and for foreign currency to be deposited with the exporter. 3. Collection experience refers to the risk attached to exchange delays. 4. Individual experiences can vary considerably, depending on the relationship with the buyer, type of goods etc. 5. All of the above countries appear in the UK department of trade and industry's List of Target Markets.

Source: Financial Times International Trade Finance, a bi-weekly newsletter published by Financial times Business Enterprises.

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UK CONSTRUCTION EQUIPMENT

Overseas markets remain crucial

In spite of a recovery on home ground, **Andrew Baxter** finds that the proportion of sales going abroad must remain high if manufacturers are to maintain their pole position in the industry

The UK is one of Europe's most important centres for the manufacture of construction equipment, and exports have been a vital element in achieving and maintaining that position.

Whether British or foreign-owned, equipment manufacturers usually export 60-80 per cent of their products, although the percentage varies depending on the companies, the product lines and the state of the UK market.

The traditional boom-and-bust cycle in the UK construction industry means that in a recession as deep and long as the most recent one, the percentage of sales going to the home market will inevitably fall. The importance of strong positions in as many export markets as possible cannot, therefore, be overstated.

With domestic market conditions recovering strongly from the trough of recession, and some continental markets still flat, the proportion of sales going to export markets could fall back for some companies – but not by much.

This is because of the strength of markets such as the US – which recovered from recession a year earlier than the UK – and continuing growth in markets, such as those in south-east Asia, which have been immune to recession.

Statistics from the London-based Corporate Intelligence Group's off-highway research division emphasise the importance of exports – whatever the conditions in the home market.

Last year, it says, 16,070 backhoe loaders were produced in the UK. Of these just 2,867 were sold in the domestic market. As for mini-excavators, UK factories produced 2,954, of which 648 were sold in the UK. In the smaller, more specialist category of asphalt finishers for roadmaking, just 25 of the 220 units produced in the UK were also sold there.

The effects of the UK construction industry recession are illustrated by statistics for rough-terrain lift trucks. In 1991, just 850 of the 3,250 UK-produced units were sold in the UK. Two years later, 2,103 of the 3,795 units manufactured in the UK went to the domestic market.

At J. C. Bamford, the largest UK-owned construction equipment producer, overseas sales have hovered between £233.5m and £271.9m in the past five years. UK sales, meanwhile, have been much more volatile, ranging between £149.4m and £78.8m over the same period.

JCB's direct exports were up nearly 40 per cent in the first five months of this year, compared with the same period of 1993. Exports to North America have more than doubled, while those to continental Europe – viewed by JCB as its "home market" – rose by 25 per cent as markets emerged from recession.

A long-term growth prospect for JCB, meanwhile, is the Asia Pacific region, which accounts for 6 per cent of exports. Sales in the first five months soared by 64 per cent.

At Fermec, the Manchester-based producer better known by its MF Industrial brand, exports represent more than 80 per cent of its business. In the first five months of this year, exports to North America have risen more than 400 per cent while sales to the rest of the world beyond Europe – mainly Australia, Thailand and Israel – have more than doubled. Fermec attributes the success to its new range of backhoe loaders and, in North America, to a new supply agreement with Kobelco America, the Japanese-owned distribution company.

Foreign-owned producers are also heavy exporters from their UK plants. Caterpillar UK, the British part of the world's biggest construction equipment producer, had sales of £235.4m in the period from December 1992 to November 1993. Of this, £28.8m derived from the UK, £66.2m from continental Europe, £89.2m from the US and £51.2m from elsewhere.

Komatsu, the world's second biggest producer, has its European factory for hydraulic excavators at Birtley near Newcastle. Of nearly 1,200 units produced last year, 272 went to the UK market, but that was dwarfed by the 615 units which went to Germany.

Further north, the Scottish contribution to the exports picture should not be ignored. Lanarkshire-based Atlas Hydraulic Loaders says that more than 52 per cent of its 1993 sales were exports, the bulk going to the continent and Germany in particular.

Excluding exceptional sales to eastern Germany in the first six months of last year, this year's exports by Atlas, part of Germany's Atlas Weyhausen, are ahead of 1993's.

Exports to France are up 220 per cent, to the Netherlands up 50 per cent, to Australia up 50 per cent and to Chile up 67 per cent. Exports to the Gulf states have fallen considerably, but this is not an important market for Atlas.

At Terex in Motherwell, at least 70 per cent of the dumptrucks, loaders, scrapers and other plant made by the US-owned company is exported. The plant, which was once at the periphery of Terex, is now its global centre for construction equipment.

A supply agreement with O&K in Germany accounts for a significant part of exports, but China is probably the plant's biggest market – because of equipment that is shipped complete and broken down kits which are supplied to a joint venture in China that assembles one of the Terex rigid dumptruck models.


Immune to recession: Hong Kong construction site. Growth continues in east Asia Sarah Murray

GERMAN MACHINE TOOLS

Sector yet to recover from the crisis

The industry, which suffered more than most from the effects of recession, has still a long way to go in rebuilding its competitiveness in export markets, writes **Christopher Parkes**

The German machine tool industry has long prided itself on its powerful presence in export markets, claiming a 27 per cent share of world trade. Even during the now-fading recession, it boasted that it was gaining share at the expense of the Japanese who were labouring under a high yen and relatively high dependence on their weak domestic market.

But the gains came at the cost of evaporating profits and a slump in production which dragged output last year to half its record 1989 level.

The machine tool business was the first part of the German engineering industry to plunge into recession. The blows rained hard and fast, starting in 1990. Much of the rest of the sector was enjoying the fruits of the German unification boom, shipping cars, consumer durables and building machinery equipment. But east German demand for machine tools failed to materialise as the region's industry crumbled.

Meanwhile, recession and political and economic turmoil struck the sector's main export markets elsewhere in Europe. German machine tool makers have traditionally exported a good 60 per cent of their output, maintaining a 20 per cent share of world markets. Some 70 per cent of all foreign sales go elsewhere in Europe (17 per cent to the former east bloc), and only 10 per cent each to the US and south-east Asia.

This dependence on Europe was arguably the worst structural problem exposed by the economic turmoil. The VWD manufacturers association pointed out last year that the industry was most strongly established in the slowest-growing markets. Its products were too expensive and failed to meet market needs. Without counter-measures, it said, German volume output would fall to 50 per cent of that in Japan by the end of the decade.

Much management energy has been expended on regaining cost-competitiveness. The main methods have been reductions in staff and vertical integration. Schütte, a typical medium-sized private company, for example, has halved its workforce to about 660. Pittler, one of the bigger concerns, claims its new policy of buying certain components from low-cost east European suppliers, has reduced overall materials costs by 20 per cent.

Inventive, customer-specific technologies and software – increasingly developed in partnership with the end-user – have helped German manufacturers compensate partially for the losses in the market for mass-produced standard machines which is falling increasingly under Asian control.

But convincing ways have yet to be found for the industry to establish itself firmly in fast-growing Asian markets. Some observers believe the industry should accept that opportunities are limited and concentrate on specialist niches and the "home" European market.

They argue that "local" suppliers in Asia are already firmly settled, and that the risks and the costs of establishing plant or even distribution and service networks are too high for most German companies in the sector. Many are small or medium-sized, highly-specialised enterprises with only modest volumes. They are often privately-owned, and their finances have been weakened by the recent crisis.

Suggestions that they may gain critical mass through merger or takeover have been met with a resistance peculiar to Germany's fiercely independent entrepreneurial Mittelstand. Indeed, the board of the only significant recent merger – between Deckel and Maho – filed for protection from their creditors within a year of the deal's conclusion.

However, not everything has been lost. The joint distribution and service network between Deckel and Maho, which was seen as one of the main sources of synergies, has been taken over by Gildemeister, which is in turn interested in building a reciprocal sales/service relationship with Cincinnati Milacron of the US.

Even wider synergies are apparently being sought within a holding group, Autania, which last year came under the control of the publicly-owned West-Deutsche Landesbank. Autania, which claims to be Europe's biggest machine tools "group", has stakes in about 20 different companies. It was built up by the Rothenberger family as an investment vehicle, but WestLB has grander plans. On taking control, the bank announced the individual stakes were to be increased, and Autania was to be transformed into a "world market alliance".


A tug leads a container barge through Hong Kong harbour: the small levy on imports and exports that funds the TDC gives the trade body financial independence Sarah Murray

THE HKTDC

In pursuit of the client's interests

David Dodwell finds out how the Hong Kong Trade Development Council's data-base benefits the territory's small operators

From a desk-top computer in his tiny office in Hong Kong's teeming Mong Kok, John Williams dials down his modem line to the Hong Kong Trade Development Council's trade data-base, TDC-Link. His company makes highly sophisticated car burglar alarms, and he wants to check on new export opportunities.

Within three minutes, he has a list on his office printer of 32 companies spread across Europe, the US, Japan and south-east Asia that in the past two months have inquired about buying car burglar alarms. The list not only has company names, addresses and telephone and fax numbers, but also the names of purchasing managers.

"It certainly beats cold-selling," says Mr Williams. The software package to hook him up to the TDC computer cost just HK$300 (£25).

TDC-Link, in operation since 1991, is one of a number of services provided by Hong Kong's TDC to reduce the barriers and risks many small companies experience when they come face-to-face with the challenges of exporting. In a territory made up almost entirely of small companies, this is a priority.

It is one of a number of services that trade promoters in other parts of the world would do well to take note of – in particular in countries such as the US, the UK, Germany and France, where governments acknowledge that "big industry" accounts for too large a share of international trade, but confess to immense problems in drawing small companies into cross-border commerce.

TDC-Link is underpinned by a vast computer data-base built up by the TDC over a decade. It carries details of 57,000 Hong Kong companies and records of 250,000 buyers or suppliers worldwide.

In addition, its data-base of companies across mainland China grew last year from 60,000 to more than 110,000. The TDC's 51 offices worldwide are feeding trade inquiries into the data-base at a rate of 13,000 a month.

Apart from raw trade inquiry information, TDC-Link carries market and product or sector reports prepared by its own research staff, a news data-base, a global directory of brand names, import regulations, quota prices, shipping schedules, and even real-time exchange-rate and stock market information.

For Hong Kong companies without computers, or lacking modem access, the TDC operates five Data-shops across the city-state which provide one-stop-shop access to the same range of information.

So far, the service is available only to Hong Kong-based companies, but that does not mean foreign companies are completely shut out: a TDC Phone-Fax service, set up in April 1992, takes trade inquiries by telephone from anywhere in the world, and aims to supply the information required by fax within 30 minutes. The TDC's four Phone-Fax operators handled 47,000 inquiries last year.

It is moot why trade promotion agencies in countries such as the UK and the US have failed so far to establish similar services. The answer must in part be that exporting has not until recently become the focus of high-level government priority.

But it must also partly be due to the fact that in most countries, trade promotion – or rather, export promotion rather than trade promotion, since few share Hong Kong's recognition that most companies have to import in order to export – is the responsibility of a government department, subject to civil service rules, and perhaps most important of all, subject to treasury spending restraints.

The Hong Kong government broke this link in 1966 when it set up the TDC as an independent trade promotion body funded not out of taxes, but by a tiny levy on imports and exports.

The decision gave the TDC financial independence and – as the territory's trade has grown – unimagined affluence to pursue the interests of its clientele: Hong Kong's traders.

The levy first set in 1966 was for 0.05 per cent on all imports and exports – a sum that industry as well as government regarded as a modest enough tax on trade to be acceptable.

By 1986, following the hectic emergence of Hong Kong's role as entrepot for trade between China and the outside world, the TDC was facing embarrassing affluence. The response was to trim the levy to exclude re-exports.

As Hong Kong's trade has continued to grow strongly – to a point where in 1993, the territory had become the world's eighth most important trading power – the time came early this year to cut the levy afresh, particularly in view of a trend in recent years to charge for services, even though in many circumstances this was at a subsidised rate. The levy now stands at 0.035 per cent on all direct imports and exports.

"The levy on trade has served us well," says one Hong Kong trader. "It is a puzzle why chambers of commerce and trade organisations in other countries have not taken a similar route."